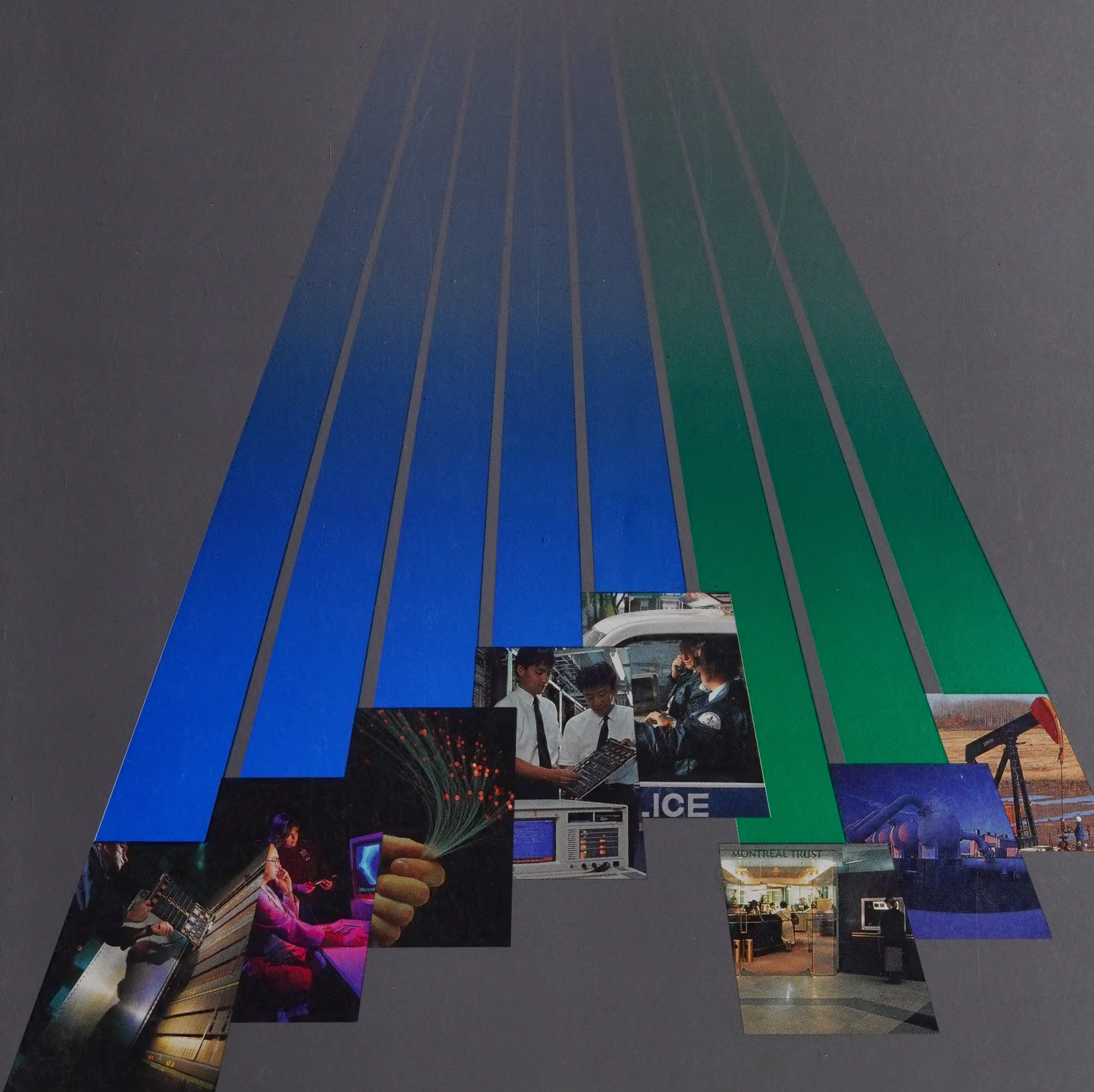
Annual Report 1989



BCE Inc.

Bell

Bell Canada is Canada's largest supplier of telecommunications services, providing advanced voice, data and image communications to some seven million customers in Quebec, Ontario and the eastern Arctic.

nt northern telecom

Northern Telecom Limited is a leading global supplier of fully digital telecommunications systems. It is 53.1 per cent owned by BCE and its common shares are listed on the New York, Toronto, Montreal, Vancouver, London and Tokyo stock exchanges.

BNR

Bell-Northern Research Ltd. is Canada's largest research and development organization, and is a world leader in the design and development of advanced telecommunications systems. It is 70 per cent owned by Northern Telecom and 30 per cent by Bell Canada.

BCI

Bell Canada International Inc. is BCE's international consulting arm. The company has completed telecommunications management and consulting projects in more than 70 countries over the past two decades.

BCE MOBILE

BCE Mobile Communications Inc. provides cellular telephone, paging, telephone answering, and private and shared radio systems and services. At year-end, BCE owned 73 per cent of BCE Mobile, whose shares are traded on the Montreal and Toronto stock exchanges.

MONTREAL TRUST

Montreal Trustco Inc., wholly owned by BCE, markets financial and trust services to individuals, businesses, governments and institutions, through branches and offices across Canada.

TCPL

TransCanada PipeLines Limited owns and operates the sole Canadian pipeline system transporting natural gas from western Canada to eastern Canadian markets. BCE owns 48.9 per cent of TCPL, whose shares are traded on the Montreal, Toronto, Winnipeg, Alberta, Vancouver and New York stock exchanges.

ENCOR

Encor Inc. is engaged in the exploration, development and production of crude oil, natural gas and related products, both in Canada and overseas. BCE owns 48.9 per cent of Encor, whose common shares are traded on the Montreal and Toronto stock exchanges.

The annual reports to shareholders of the public companies may be obtained directly from those companies, or by request to the Vice-President and Corporate Secretary of BCE Inc.

BCE is a management holding corporation whose principal subsidiaries and associated companies are major providers of telecommunications services, leaders in the manufacture and supply of telecommunications equipment, in the provision of international telecommunications consulting services, financial services, and in natural gas transportation.*

Other BCE subsidiaries and associated companies are engaged in natural resource operations, publishing services, printing and other fields.

BCE has the largest number of registered shareholders of any Canadian corporation, and its common shares are listed on exchanges in Canada, the United States, Europe and Japan.

* BCE is a trademark of BCE Inc.

1990 annual meeting

The annual meeting of BCE shareholders will take place at 10 a.m., Thursday, May 3, 1990, at Roy Thomson Hall, 60 Simcoe Street, Toronto, Ontario.

BCE Inc.
Executive Offices
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7

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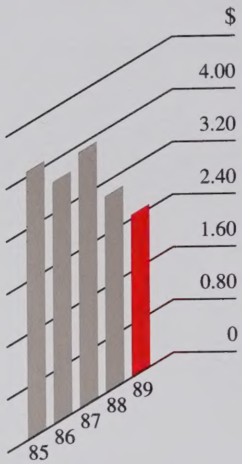
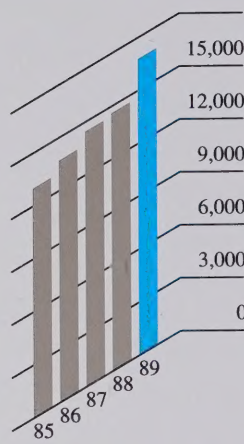
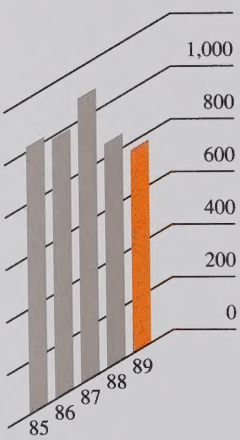
Earnings per common share



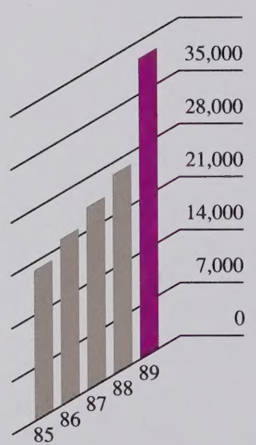
Total revenues
($ millions)



Net income
($ millions)



Total assets
($ millions)



(dollars in millions, except per share amounts)	1989	1988*	1987*
Total revenues	$16,681	$14,445	$14,321
Income from continuing operations	$ 1,201	$ 853	$ 1,070
Income (loss) from discontinued real estate operations	(440)	(7)	6
Net income	$ 761	$ 846	$ 1,076
Net income applicable to common shares	$ 724	$ 841	$ 1,043
Earnings per common share			
Continuing operations	$ 3.91	$ 2.97	$ 3.85
Discontinued real estate operations (loss)	(1.48)	(0.02)	0.02
	$ 2.43	$ 2.95	$ 3.87
Return on common equity	7.6%	9.2%	12.3%
Total assets	$39,261	$25,988	$23,797
Gross capital expenditures	$ 3,239	$ 3,074	$ 2,803

* Restated

In the past year, we have made some hard decisions about major BCE assets. We have reassessed what sort of businesses are best suited to our corporate strategies, and how these investments should fit together.

Our core business

It is telecommunications in all its varied aspects, as represented in our current holdings, which constitutes BCE's core business. We intend to continue our investments in telecommunications. We have also entered further into the field of financial services and we expect the future will see growth in this area. In addition, BCE will maintain certain other long-term investments, such as natural gas transportation, but will not hesitate to review and alter other holdings in the light of changing circumstances.

During 1989, BCE made a major new non-telecommunications investment, in financial services, and withdrew from another business, real estate. In addition, two BCE companies, Northern Telecom Limited and TransCanada PipeLines Limited, achieved increased profitability after undertaking major restructurings.

Telecommunications services companies, a major part of BCE's core portfolio, have consistently provided solid gains in productivity and have adapted swiftly to new directions in the markets. We are committed to a range of telecommunications ventures, an area which will provide great opportunities in the coming decade.

Over the past few years, we had determined that the financial services area also was an excellent fit with BCE's other businesses, and in April 1989, BCE acquired Montreal Trustco Inc., one of Canada's oldest and most distinguished financial services companies. Montreal Trust's 1989 results showed a 16 per cent increase in net income and a return on equity of 16 per cent. We expect that financial services will become an important contributor to consolidated income.

The largest contributor to BCE's 1989 net income was Bell Canada, which posted another record year. The company experienced strong growth in demand for telecommunications services and achieved continued improvement in productivity. Bell Canada's contribution to BCE's earnings per share was $2.75, compared with $2.62 in 1988.

Northern Telecom, having undergone a restructuring, has reaffirmed its position as the low-cost producer in a very competitive market. In 1989, Northern Telecom's earnings improved significantly, demonstrating positive results from the restructuring and cost-reduction programs undertaken in 1988, as well as from a strong sales effort. Northern Telecom contributed $0.75 per share to BCE's consolidated earnings, compared with $0.37 in 1988. Telecommunications manufacturing is part of our core business structure.

TransCanada PipeLines, after consolidating its oil and gas assets into an entirely separate company, Encor Inc., is prepared for a resurgent natural gas market. The stock market has reacted positively to the restructuring, valuing TCPL more highly than before it divested its oil and gas holdings. The new company, Encor, has also improved its financial position, notably reducing its debt. In 1989, TCPL's net income from continuing operations showed marked improvement over 1988, due largely to the effects of restructuring and to associated tax benefits. TCPL contributed $0.22 per share to BCE's consolidated earnings, compared with a loss of $0.13 in 1988.

J.V. Raymond Cyr

Other investments

Among its other investments, BCE holds approximately $402 million in notes and accrued interest of Kinburn Corporation, a holding company which is experiencing severe financial difficulties. In the fourth quarter of 1989, BCE started provisioning against the income from the Kinburn investment, and is now examining closely various means to resolve the situation.

Among Kinburn's assets are SHL Systemhouse Inc., a provider of systems integration services in which BCE also has a 12.4 per cent direct interest, and Paperboard Industries Corporation, which is a manufacturer of recycled paperboard and a supplier of packaging products. These two companies are independently financed and are not liable for the debt of Kinburn.

Real estate operations discontinued

Efforts undertaken during the year to sell our 67 per cent interest in BCE Development Corporation or, alternatively, to sell its U.S. assets, did not succeed. It is now evident that the real estate markets in which BCED's U.S. properties are located will remain depressed into the foreseeable future, and that these properties had become a massive drain on BCE as well as on BCED.

At the end of the year, BCED incurred $100 million in operating losses; in addition, BCED took a $610 million provision for the diminution in value of its property portfolio and for foreign exchange translation losses. The impact on BCE was a loss of $440 million against 1989 net income. It had become imperative for BCE management to act to protect our shareholders from further losses.

BCE is no longer an active participant in commercial real estate but, to facilitate a restructuring of BCED, BCE has retained a passive investment in a joint venture with Carena Developments Limited. Each company is investing $250 million to facilitate the BCED restructuring, a process likely to stretch out over several years.

The loss incurred by BCED significantly lowered BCE's earnings for 1989 despite the solid results of our other investments. BCE's 1989 income from continuing operations was $1.2 billion ($3.91 per common share), compared with $853 million ($2.97 per share) in 1988. However, after deducting the loss related to BCED operations, the resulting net income was $761 million ($2.43 per share), compared with $846 million ($2.95 per share) in 1988.

Looking to the future

In view of what happened in 1989, when disastrous results from one subsidiary, BCED, had the effect of wiping out the contributions to BCE's consolidated net income of several well-performing companies, some shareholders may question the whole notion of a diversified holding company, or retain some nostalgia for earlier, more simple times.

However, in fact, our business was never really that simple. Even as Bell Canada we had an important manufacturing subsidiary, Northern Telecom, as well as a consulting arm, Bell Canada International. In view of the great strides taken by telecommunications in this decade, it was inevitable that subsidiaries such as these would take on greater importance and that others, such as BCE Mobile Communications, would be created.

The creation of BCE in 1983 was necessary just to cope with the burgeoning field of telecommunications, leaving aside the issue of diversification outside this area.

The BCE telecommunications companies have emerged as leaders in their fields and we believe this has raised the quality of telecommunications for the public. For example, had Northern Telecom not taken the initiative to enter the United States market with digital equipment in 1976, it is very doubtful whether other manufacturers and telecommunications companies would have recognized until much later the immense advantages of this technology.

Telecommunications opportunities

Over the next decade, the greatest challenges will also be opportunities. The goal of BCE management is to take advantage of emerging opportunities, particularly in telecommunications, to continue to build a combination of assets that will provide maximum value for shareholders.

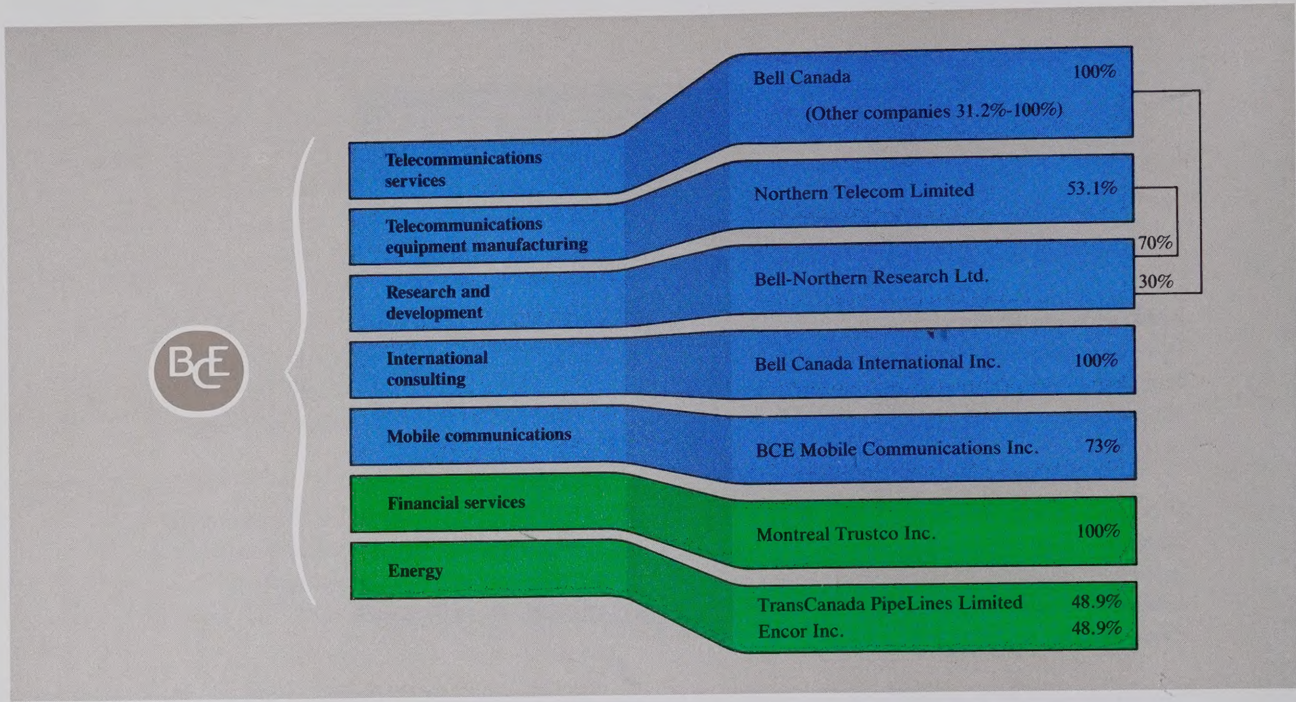
Technology, notably optical fiber and fully digital systems, will transform international communications in the 1990s. BCE subsidiaries will participate fully in this process as carriers of telecommunications, as manufacturers of telecommunications equipment and as prime users of the new technology.

The ramifications of such change are far-reaching. The sophistication, speed and efficiency of telecommunications services will improve radically, and will extend to countries and to populations where modern communications are not yet widespread. The benefits for education, medicine and international understanding will be just as great as for finance and business.

BCE's investments in telecommunications encompass virtually all facets of this industry. Our telecommunications investments support each other and add to the value of the whole. A major factor in this continuing process is, of course, Bell Canada.

In the five years from 1989 through 1993, Bell Canada plans to dedicate some $12 billion in capital expenditures to meet growing market demand and to modernize existing facilities. By 1995, the Bell Canada system will use digital equipment almost entirely. This is a major commitment, but it is vital to maintaining an advance in an increasingly competitive telecommunications market.

As Northern Telecom's 1989 results attest, this company is in the vanguard of the 1990s technology transformation. Northern Telecom is widely recognized as the leader in digital and fiber optic technology, providing its customers with reliable, sophisticated and cost-effective telecommunications services.



Another rapidly evolving business is the provision of mobile communications. BCE has spun off a part of its ownership in BCE Mobile Communications Inc. to the public. This permitted BCE Mobile to finance its expansion without draining funds from the parent while, at the same time, providing an investment opportunity for the public. At the close of 1989, the stock market valuation of BCE's holding in BCE Mobile was approximately $1.5 billion, some nine times the original investment.

This year, BCE further expanded its telecommunications interests by acquiring a 23.3 per cent equity interest in Videotron Corporation Limited, which is building a cable television distribution network in the United Kingdom, principally in the metropolitan London area. The major investor is Le Groupe Vidéotron Ltée of Montreal, the second-largest cable television operator in Canada. BCE is particularly interested in this field because developments in fiber optics are leading to a convergence of the technologies for cable television and telecommunications.

As all this demonstrates, BCE's telecommunications subsidiaries, although they compete in world markets as independent entities, together generate synergies which build the strength of BCE. This strategy will bring significant rewards as our companies enter the next decade.

BCE's assets outside of telecommunications must meet the criterion of financial compatibility. Financial services and natural gas pipelines, although different from our core telecommunications business, fit with this corporate strategy. Earnings in these industries are steady, like those of telecommunications services.

In the case of TCPL, its pipeline operations are regulated federally. This assures more predictable earnings and provides a degree of stability in a business affected by many external factors.

In the case of financial services, BCE has gained familiarity with the business through long experience in the areas of stock transfer, pension fund management, treasury and money market activities.

Management challenges
Management of a holding company is a dynamic undertaking of continuing adjustment. We believe that changes over the last two years have given BCE a stronger configuration. However, this is no guarantee that the same configuration will be in place at the end of the decade.

The economic environment in which BCE does business will certainly change and we must be prepared to react swiftly: just a few years ago, the collapse of oil prices and the decline of real estate values in major U.S. cities would have appeared unlikely. Similarly, a decade ago, the creation of BCE Mobile, the remarkable expansion of Northern Telecom, the logic of an investment in British cable television, or the possibility of a substantial investment in Teleglobe, would not have been apparent.

One constant amidst the continuing change will be BCE's determination to provide the best products and services to the public and to provide a good return on investment to our shareholders. In this way, we will continue to protect and enhance the value of our shareholders' investment.

Board and management changes
Since the last annual meeting, two members have left the board of directors, while three new members have joined.

Rowland C. Frazee resigned in May, and Lynton R. Wilson resigned in September. BCE's ownership of Montreal Trustco Inc. resulted in potential conflicts of interest for these directors because of their association with other financial institutions. Mr. Frazee, who joined the board in 1986, was a member of the Management Resources and Compensation Committee; Mr. Wilson, who joined in 1985, was a member of both the Investment Committee and the Management Resources and Compensation Committee. We shall miss the contributions of these colleagues to our board discussions.

We have been fortunate to acquire three new directors in the course of the year. They are the Honourable Donald J. Johnston, P.C., Q.C., legal counsel to the law firm of Heenan Blaikie and for many years a member of Parliament and of the federal cabinet; Jeannine Guillevin Wood, chairman of the board and CEO of Guillevin International Inc.; and J. Edward Newall, chairman and CEO of Du Pont Canada Inc.

As discussed on the following pages, A. Jean de Grandpré retired as chairman on August 1. Mr. de Grandpré continues to serve on the board of BCE and of its major subsidiary and associated companies.

On May 1, Jean C. Monty, who had been executive vice-president, corporate, at BCE, moved to Bell Canada as president. His successor, C. Wesley M. Scott, formerly executive vice-president, finance and administration, at Bell Canada, joined BCE on August 1.

The success of any corporation depends ultimately on the commitment of its employees. We are fortunate to have 120,000 skilled and resourceful women and men working for the various companies in the BCE corporate family. They are the key to our achievements and we thank them all sincerely.

J. V. R. Cyr

J.V. Raymond Cyr
Chairman of the Board, President
and Chief Executive Officer

February 28, 1990

A. Jean de Grandpré retires

A. Jean de Grandpré, C.C., Q.C., the driving force in the creation of BCE Inc. and in its evolution into Canada's largest industrial enterprise, has retired as chairman of the BCE board of directors.

In acknowledgement of Mr. de Grandpré's unique role in the 1983 creation of BCE, and in recognition of his distinguished record of corporate leadership, the BCE board of directors has honoured him with the special title of Founding Director and Chairman Emeritus.

Mr. de Grandpré was succeeded as chairman on August 1, 1989, by J.V. Raymond Cyr, O.C., also the corporation's president and chief executive officer. Mr. de Grandpré is continuing his involvement with BCE companies in his role as a director of BCE and of several of its major subsidiary and associated companies.

A native of Montreal, he graduated in law from McGill University in 1943. Over the next two decades he built a varied and successful law practice, including a period when he acted as external counsel to Bell Canada.

Mr. de Grandpré joined Bell Canada in January 1966, as general counsel. A succession of senior officer appointments followed and, on January 1, 1973, Mr. de Grandpré became president of Bell Canada. His election as chairman and chief executive officer followed on May 1, 1976.

As chief executive, Mr. de Grandpré directed Bell Canada during a period of rapid capital expansion and participated directly in the growth and internationalization of Northern Telecom Limited.

He also spearheaded lengthy and detailed negotiations which led to the Bell Canada companies contracting with the Kingdom of Saudi Arabia to complete the largest undertaking of its kind in the history of telecommunications.

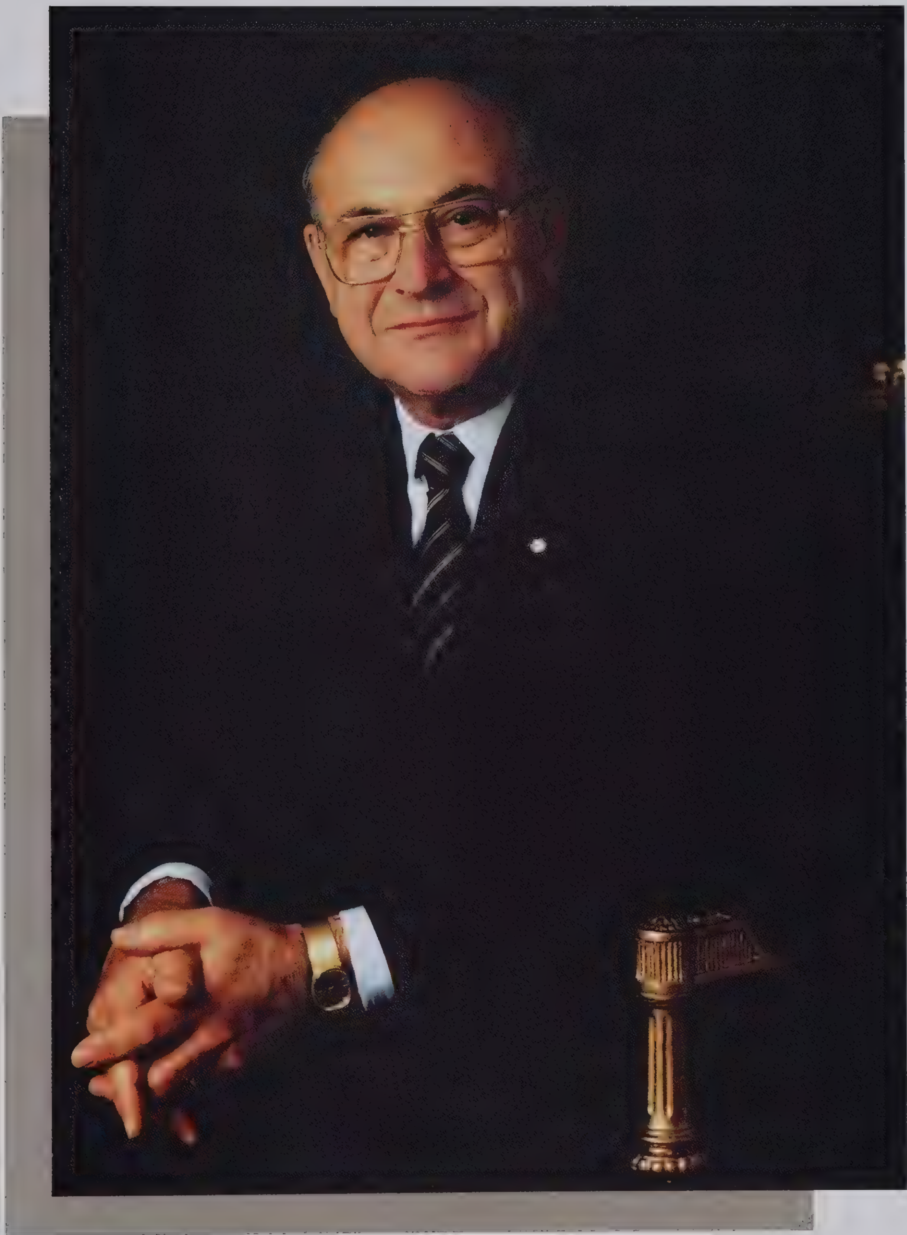
Partly as a consequence of these involvements, Mr. de Grandpré determined that a corporate reorganization was needed and, in April 1983, a new holding corporation was created under the name Bell Canada Enterprises Inc., which was later changed to simply BCE Inc.

The period of diversification and acquisitions which followed saw investments in energy, real estate, printing and packaging, mobile and cellular communications and, most recently, a major move into the financial services sector. During the same period, BCE became the first Canadian corporation to report net income in excess of one billion dollars.

In addition to his corporate activities, Mr. de Grandpré has maintained a busy and varied leadership role in education, commerce, public service, national and international business organizations. In 1988-89, Mr. de Grandpré served as chairman of the Prime Minister's Advisory Council, formed to advise on the effects of the Canada-U.S. Free Trade Agreement.

Mr. de Grandpré is a Companion of the Order of Canada, and he is Chancellor of McGill University. He has received the Honourary Associate Award of the Conference Board of Canada and also has been inducted into the Canadian Business Hall of Fame.

Founding Director and Chairman Emeritus



A. Jean de Grandpré, C.C., Q.C., retired as chairman of the BCE board in August 1989.

Newfoundland Telephone Company provides modern telecommunications over rugged terrain, under frequently harsh climatic conditions. A 13,000-kilometre microwave system, including towers such as these at Four Mile Pond, near St. John's, links widely scattered communities.

TELECOMMUNICATIONS SERVICES

Telecommunications touch the daily lives of most Canadians and form the core of BCE's business. Canadians, no matter how remote their home or work site, have access to telecommunications services that rank with the best in the world. The commitment of BCE companies to modern technology, efficient management and high productivity is bringing state-of-the-art services to the most remote reaches of their territories.

All told, BCE's telecommunications subsidiaries and associated companies serve some 70 per cent of the Canadian population, in an area stretching from the Atlantic seaboard to the western Canadian arctic. Through membership in Telecom Canada, an association of Canada's major telephone companies, BCE companies provide North American long distance service to their subscribers. Teleglobe Canada, in which BCE has an approximately one-third interest through Memotec Data Inc., provides Canada's overseas telecommunications links.

Bell Canada, a wholly owned BCE subsidiary, is Canada's largest telecommunications services company, serving nearly seven million business and residential customers. Its service area extends over most of Ontario and Quebec, the most populous provinces, and into the eastern Northwest Territories.

In addition, BCE has important ownership interests in six other telecommunications services companies. They are Northwestel Inc. (100 per cent), which serves the Yukon, the western Northwest Territories and northern British Columbia; NewTel Enterprises Limited (56 per cent), whose subsidiary Newfoundland Telephone Company Limited serves all of Newfoundland and Labrador; Bruncor Inc. (31.2 per cent), the parent company of The New Brunswick Telephone Company, Limited; Maritime Telegraph and Telephone Company, Limited (33.7 per cent), which serves Nova Scotia and whose subsidiary, The Island Telephone Company Limited, serves Prince Edward Island; Télébec Ltée (100 per cent), whose territory includes northwestern Quebec; and Northern Telephone Limited (99.9 per cent), which serves part of northeastern Ontario.

Taken together, the telecommunications companies contributed $878 million to BCE's earnings in 1989 ($2.95 per share), an increase of 10 per cent over 1988. Excluding Bell Canada, the contribution of the telecommunications services companies for 1989 was $60 million, an increase of 20 per cent over 1988. The increase was due to the acquisition of Northwestel and Terra Nova Telecommunications Inc., and to growth in demand for telecommunications services.

Telecommunications services — BCE investments

On August 14, 1989, the Supreme Court of Canada decided that the federal Parliament has sole authority to regulate Alberta Government Telephones, a crown corporation serving the province of Alberta that was previously regulated by provincial authorities. Since that decision, the four Atlantic telecommunications companies associated with BCE, which formerly were regulated provincially, have filed rate applications with the Canadian Radio-television and Telecommunications Commission (CRTC).

The telecommunications industry is entering a period of rapid and fundamental change. The continuing expansion of digital technology is bringing about the greatest change to Canada's telecommunications since the introduction of automatic dialing in the 1950s and 60s. These changes will improve service for both home and business subscribers.

Speed, capacity and dependability of telecommunications equipment are undergoing major improvements, while the range of services offered is expanding. In addition, the new technology is generally less costly to install, maintain and upgrade than older equipment.

BELL CANADA – A year of growth

Bell Canada posted another year of strong growth, with sustained increases in demand in both business and residential markets. At year-end, Bell Canada had 8.5 million lines in service, an increase of 5.1 per cent over 1988. Approximately 55,950 employees work at Bell Canada, with another 1,800 employees in the directory business. Assets at year-end were $15,699 million.

Bell Canada contributed $818 million to BCE's consolidated net income ($2.75 per share), compared with $746 million ($2.62 per share) in 1988. The company had operating revenues of $7,273 million, a 9.8 per cent improvement over $6,624 million in 1988. Local and long distance services provided approximately 87 per cent of Bell Canada's 1989 operating revenues. Local service revenues increased by 8.8 per cent to $2,732 million in 1989.

The number of long distance messages increased by 14.8 per cent, to 1.6 billion. Long distance service revenues increased by 9.1 per cent in 1989, to $3.6 billion, compared with an increase of 2.3 per cent in 1988. The strong 1989 growth in revenues is due to growth in the number of long distance calls, as well as to the fact that a strike by some unionized employees in 1988 had a dampening effect on comparative 1988 revenues. The growth in revenues, however, did not keep pace with the growth in number of calls because of rate reductions.

Improvements in digital technology, which transmits both voice and data, permit expanded and more efficient 9-1-1 emergency service. This 9-1-1 response centre serves the approximately two million inhabitants of the Montreal Urban community.

The most recent permissible rate of return on average common equity set by the CRTC was within the range of 12.25 to 13.25 per cent. The actual 1989 year-end result was 13.0 per cent.

The comparative figures for 1988 have been restated to reflect the effect of Bell Canada's one-time refund of $206 million to eligible subscribers, undertaken during the summer of 1989.

Digital conversion accelerating

In 1989, Bell Canada announced that it would earmark a significant portion of its construction program budget for accelerating the introduction of digital equipment, with the goal of having 90 per cent of the lines served by digital equipment by 1995. To meet this goal, Bell Canada plans to convert at least 660,000 lines per year from analog to digital equipment. Construction expenditures over the five years from 1989 through 1993 will total approximately $12 billion.

Conversions to digital equipment will have the greatest impact on local service, where Bell Canada at present uses digital technology in about 44 per cent of the network. Bell Canada's long distance system already functions largely with digital equipment for both switching and transmission.

Digital equipment has major advantages compared with the older analog equipment. Digital equipment is based on computer software. This has permitted introduction of "intelligence" into terminals and switching equipment, making them into powerful computers that direct calls over the network.

The most notable resulting improvements in customer service are: First, the software used in digital equipment can be upgraded and adapted rapidly and cost-effectively to meet changing service requirements. Second, a digital switch is significantly less expensive to maintain and takes up much less space than older switches. This helps put a lid on operational costs. Third, an intelligent system provides higher levels of performance and responsiveness, including self-diagnostic abilities that allow Bell Canada to spot possible problems before they develop. Finally, digital technology permits a major expansion in services offered, such as call management for homes and businesses.

As another key part of its modernization program, Bell Canada is installing optical fiber to expand and eventually replace large segments of the present copper wire network. Over the years 1989 through 1993, $625 million has been allocated to fiber optic installations. Fiber optic cables, which carry pulses of light over tiny strands of glass, permit enormous increases in the amount of data the system can handle and the speed at which it can be transmitted.

New products and services

During 1989, Bell Canada completed its portion of the Canada-wide Fiber Optics Transmission System, being set up by Telecom Canada and its members. In addition, Northern Telecom announced a new line of fiber optic products, FiberWorld, which will start coming on the market in 1990. Bell Canada is undertaking technology and field trials of these products.

Other technological improvements now under way include high performance digital radio, for locations where radio is more effective than laying cable; the introduction of common channel signalling (CCS-7), which sets up separate signalling channels for voice and non-voice communications, permitting features such as visual display units on a telephone, automatic calling card verification and enhanced 800 calling services; and signal transfer points, which link switches with computer data bases and allow customers to take advantage of new features.

These technological advances make possible new services such as Call Management Services for homes and small businesses. Subject to regulatory approval, Bell Canada plans to introduce Call Management Services in Quebec City and Ottawa in 1990, and in Montreal and Toronto in 1991.

The ALEX videotex information service surpassed goals for subscribers and services in Montreal, where it was introduced in a market trial in late 1988. Contingent upon regulatory approval, it will be introduced in Toronto a year ahead of schedule, in April 1990.

Services such as ALEX are called "intelligent" because they rely on extremely advanced computer software technology. Other examples of Bell Canada's intelligent telecommunications services are Envoy, iNet 2000, and TradeRoute, all of which transmit text over telecommunications networks to computer terminals. These services have recently been grouped into the Mediatel division of Bell Canada, in order to make the most efficient use of the resources required.

Further rate reductions

Continuing strong demand, productivity improvements and equipment modernization contributed to the fifth reduction in Bell Canada's long distance rates since 1987. Charges for calls to areas of Canada outside the Bell Canada system have fallen by 42 per cent since January 1987, while long distance tolls within Bell Canada's territory have fallen by 27 per cent. In late 1989, Bell Canada announced plans to reduce, by up to 70 per cent, rates for certain private line services used extensively by large corporations.

There have been no general increases in rates for basic residential service since 1983, even though the consumer price index has risen by 20 per cent.

The issue of competition for long distance business is one of the most important that Bell Canada and other BCE telecommunications companies will face over the next few years. Under the present system, profits from providing long distance service help to defray the costs of providing access to local service. Within the Bell Canada system, this cross-subsidy amounts to about $2 billion per year. If, in an environment of competitive long distance service, Bell Canada could no longer support its local service by applying profits from long distance, most customers would pay higher local rates.

Another very important, and closely related, issue is the convergence of telecommunications and broadcast distribution technologies, which may result in both cable companies and telecommunications companies being capable of providing similar services. The federal Department of Communications has invited public comment on development of a broadband (high capacity) network that would deliver voice, data and image services to the home. Bell Canada is participating in this review.

Workers in Southampton, England, lay cable for newly introduced cable TV service. BCE has invested in Videotron Corporation Limited, which has several cable TV franchises in London and Southampton.

DIRECTORY SERVICES

Through the Directory Business division of Tele-Direct (Publications) Inc., Bell Canada also publishes telephone directories. Tele-Direct produces directories for Bell Canada and for 46 other independent telephone companies in Ontario and Quebec, and it employs 1,800 people at nine locations. In 1989, telephone directory advertising contributed some $440 million to total operating revenues of Bell Canada.

BCE also has direct interests in several smaller entities, active principally in telephone directory services, directory advertising sales and printing.

Telephone directory activities, including advertising sales, is a specialized and profitable business in which BCE has over a century of experience. Tele-Direct (Services) Inc. publishes directories for several Canadian telephone companies.

National Telephone Directory Corporation and Penn-Del Directory Corp. have exclusive long-term contracts as advertising sales agents for the telephone directories of New Jersey Bell, Bell of Pennsylvania and the Diamond State Telephone Company of Delaware. National Telephone and Penn-Del are both extremely cost-effective and have built up a strong market for advertising in their areas.

Y.P. Publishing Australia Pty. Ltd., through an associated company, sells Yellow Pages advertising in Australia, Fiji and Papua New Guinea. Tele-Direct Services Middle East Limited has interests in telephone directory companies in various countries in the Middle East including the United Arab Emirates.

DATA SERVICES

The iNet technology developed in Canada was introduced into Hong Kong during the year through a joint venture between BCE Information Services (U.K.) Limited and Hutchison Telecommunications Limited. The new company is called iNet Hong Kong Limited. iNet, which stands for intelligent network, permits subscribers with computers to use electronic data bases, information sources and information management services such as electronic mail and text editing.

VIDEOTRON CORPORATION LIMITED

Late in 1989, BCE made an important strategic investment with the purchase of a 23.3 per cent equity participation in a British cable television company, Videotron Corporation Limited. Videotron holds several cable television franchises in metropolitan London and one in Southampton.

Cable television is just being widely introduced into the United Kingdom, and BCE management believes it has potential for widespread success. Cable television franchises

in the U.K. are awarded for an initial period of 15 years and make provision for a variety of telecommunications services, in addition to standard cable television programming and services. Videotron Corporation is owned 61 per cent by Le Groupe Vidéotron Ltée of Montreal, the second-largest cable television operator in Canada. European investors hold the remaining approximately 16 per cent.

Videotron Corporation holds a franchise for Southampton representing a potential of some 100,000 households, as well as franchises to serve some 500,000 households in south London. Early in 1990, Videotron agreed to acquire an 80 per cent stake in City Centre Communications Ltd., which holds franchises in the London area north of the Thames.

The number of potential Videotron subscribers in the London area now stands at some one million households, which allows the company to benefit from important economies of scale. By way of comparison, Le Groupe Vidéotron, the parent corporation, has approximately one million subscribers in Canada.

TELECOMMUNICATIONS EQUIPMENT MANUFACTURING

NORTHERN TELECOM – Ready for the future

Over the next decade, technological advances in communications will prove as dramatic as any seen in this century. At the same time, telecommunications manufacturers will face intense competition in both established and new markets. While North America, Western Europe and Japan are opening further to participation by foreign manufacturers, whole new marketing opportunities are developing in other countries as they adapt to the new communications era. Advanced, efficient, cost-effective telecommunications are increasingly recognized as essential to economic progress and to the achievement of higher living standards around the world.

Northern Telecom Limited, a 53.1 per cent owned BCE subsidiary, is one of the largest telecommunications manufacturers in North America and holds a significant place in the international market. In 1989, some 36 per cent of Northern Telecom's revenues came from sales in Canada, 59 per cent from the U.S. and five per cent from sales internationally. Northern Telecom employs some 47,600 people worldwide and its products are sold in more than 70 countries.

Despite competition from some of the world's most powerful telecommunications manufacturers, Northern Telecom has retained its strong market position in digital switching technology. The company has the world's largest installed base of digital lines. Northern Telecom is also an early leader in the evolving technology of fiber optics. A 1988 restructuring program, which prompted a provision against 1988 income of US $200 million, has streamlined the organization, improved productivity and reinforced competitiveness. As a result, Northern Telecom enters the 1990s in a solid position to gain new prominence in world markets.

Growth in earnings

Earnings applicable to common shares in 1989 were US $354 million, up 18 per cent over the pre-restructuring figure of US $301 million in 1988, and up 114 per cent over the post-restructuring figure of US $166 million. Revenues increased 13 per cent to US $6.1 billion from US $5.4 billion in 1988. Increased revenues and profits were reported in all major product lines. Northern Telecom contributed Cdn. $222 million to BCE's consolidated 1989 net income ($0.75 per share), a 109 per cent increase over Cdn. $106 million ($0.37 per share) in 1988.

Sales of DMS switches, which route calls and are the core of a modern public telecommunications system, generate almost half of Northern Telecom's total annual revenues. More than 6,000 DMS switches are in service worldwide. They are produced in a range of sizes for companies serving rural areas, towns or major cities, or for providing overseas communications links.

The new FiberWorld technology provides the network capacity for multimedia communications. As an example, medical personnel will routinely call up X-rays, along with verbal diagnostic reports, from distant medical centres.

The Meridian SL-1 private branch exchange (PBX), which routes telecommunications for smaller networks such as businesses or government offices, is the most widely installed PBX in the world, with more than 40,000 operating in 68 countries. PBXs and related products account for about a quarter of annual revenues. In early 1990, Northern Telecom introduced the Meridian 1, which has ten times the capacity of the SL-1, is less costly to install and maintain, and can easily be upgraded to handle more functions.

The Norstar key system, introduced a year ago, has proven an instant success with medium-sized and small businesses and is now sold in 40 countries, with total sales exceeding 70,000 systems and nearly 700,000 stations.

An important advantage of all these digital systems is that they are based on computer software that can be rapidly adapted to different market requirements anywhere in the world. Worldwide, Northern Telecom has installed nearly 55 million fully digital telephone lines.

Northern Telecom also manufactures a complete range of digital and optical fiber transmission equipment. Northern Telecom owns 27.2 per cent of STC PLC, a leading manufacturer of transmission equipment in the United Kingdom.

The final major product line includes both copper wire and optical fiber cables, and "outside plant" products used to link and protect equipment.

Through its DPN line of products, Northern Telecom is a world leader in data packet switching, which permits transmission of large volumes of data at high speeds over public and private telephone networks around the world. Customers include governments and private networks in Canada, the United States, Hong Kong, Australia and in 13 European countries.

Northern Telecom's products feature network compatibility and connectivity, both of which are fundamental requirements on the world market. This means that equipment and systems must conform to international standards so they may be linked to a variety of equipment, often from several different manufacturers, to form company-wide, national and even global networks that meet specific customer needs.

An example of global networking is the US $15 million Northern Telecom DPN packet switching system purchased in 1989 by the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.) to connect 2,600 bank locations in 76 countries.

FiberWorld – First again

In the fall of 1989, Northern Telecom announced FiberWorld, a family of switching and transmission products incorporating fiber optics and based on a set of international standards established in 1988, called Synchronous Optical Network, or SONET. This announcement was the most important made by Northern Telecom since the

introduction of digital technology in 1976. Other manufacturers have announced fiber optic-based product lines, but Northern Telecom is the first to announce a complete line, with several unique products.

FiberWorld products will vastly improve the ability of telecommunications systems to deliver high-speed data, voice and image transmissions for both home and business. Transmission quality is improved, operations are simplified and installation costs are slashed. The large capacity of the fiber bandwidth permits construction of "self-healing" networks that can absorb damage without loss of service.

Examples of FiberWorld applications that will become commonplace in the 1990s are numerous: medical diagnosis will be improved when visual, voice and text information can be transmitted simultaneously from patient data bases to medical experts; educational networks will permit efficient use of scarce resources; businesses, institutions and governments will be able to hold worldwide meetings routinely, exchanging data, images and voice in order to achieve full understanding without expensive travel; contacts between remote sites and supercomputers will vastly increase access to information; FiberWorld products will transmit high definition television.

Future markets

New technology will open entirely new markets in the 1990s, for corporate and government customers as well as for the home. As an example, mobile communications systems such as cellular telephones will be converting to digital equipment over the next several years because present capacity on analog equipment is becoming saturated.

Important sales will be made as telecommunications companies worldwide modernize their installations, purchasing digital and fiber optical equipment in order to increase capacity, expand the range of services and cut costs. Countries such as the People's Republic of China, the Kingdom of Morocco, Jamaica, and Guyana are undertaking major modernization projects and purchased Northern Telecom equipment during 1989. Mexico and Brazil have purchased cellular telephone systems from Northern Telecom.

Market opportunities in technologically advanced countries are increasing as deregulation is being introduced, particularly in Japan, Australia and Europe, including the United Kingdom. For example, Northern Telecom is now the leading non-Japanese supplier to Nippon Telephone and Telegraph.

In Western Europe, ambitious plans are being made to modernize and coordinate telecommunications systems; Northern Telecom has made sales to most European PTTs and has manufacturing plants in the Republic of Ireland and France. In Eastern Europe, all telecommunications systems require urgent modernization; DMS-100 technology was sold to Hungary during 1989, through Northern Telecom's licensee in Austria.

Restructuring

Northern Telecom's position as a low-cost manufacturer with innovative, reliable products has assured market strength, but the recent restructuring was necessary to prepare for the new climate of the 1990s. Changes were implemented to permit faster response time, manufacturing sites were centralized and some facilities were closed.

Northern Telecom's research expenditures grew during 1989 to US $730 million from US $711 million in 1988. However, the percentage of revenues spent on R&D declined, to 12 per cent from 13 per cent. Sales, general and administrative expenses, an index of efficient management, declined as a percentage of revenues in 1989, to 19 per cent from 20 per cent in 1988.

Strategic alliances

Another strength of Northern Telecom is the system of strategic alliances with high technology manufacturers, such as Hewlett-Packard, Motorola, Apple Computer and IBM. The alliances call on the specific strengths of different manufacturers, ensure product compatibility and help keep a lid on research and development costs.

Major sales

In an intense international competition, Northern Telecom won a $166 million contract to provide digital switching equipment to the Manitoba Telephone System. The contract calls for more than 340,000 new telephone lines to be handled by five DMS-100 central office switches, some 85 smaller DMS-10 switches and more than 300 remote switching installations.

The DMS-300 international gateway switch was a marketing success in 1989. British Telecom ordered its first DMS-300 SuperNode switch to provide ISDN links to Europe and beyond. Contracts totalling $20 million were signed to provide DMS-300 switches in Australia. Teleglobe Canada purchased DMS-300 equipment worth $50 million for its Montreal centre, and is expanding existing DMS-300 switches in Montreal, Toronto and Vancouver.

In British Columbia, the B.C. Tel Group and Northern Telecom have formed Prism Systems Inc., a new company to serve the global telecommunications market. Owned 51 per cent by Northern Telecom and 49 per cent by the B.C. Tel Group, it will have more than 350 employees and will sell advanced network management systems.

At the end of 1989, Northern Telecom's order backlog was US $1.88 billion, up 14 per cent from a year earlier, despite pressures on prices and shorter intervals required for delivery. This indicates that the market position of Northern Telecom, as it begins the new decade, is particularly solid.

RESEARCH AND DEVELOPMENT

BNR – A key to success

A strong commitment to research and development is fundamental to the ongoing strength of BCE's telecommunications companies. Bell-Northern Research Ltd., Canada's largest research and development organization, is owned 70 per cent by Northern Telecom and 30 per cent by Bell Canada. In 1989, BNR R&D programs represented an investment of $576 million.

In addition, R&D undertaken by BCE companies other than BNR brought the total consolidated expenses for R&D in the BCE group to $1,008 million in 1989, compared with just under $1 billion in 1988. Much of this R&D is performed in Canada, but BCE companies also have laboratories in the United States, the United Kingdom and France. In Canada, BNR has facilities in Ottawa and Montreal.

A four-year, $2.4 million expansion is under way at BNR's facility on Nun's Island in Montreal, where scientists are developing new speech recognition, speech processing and video capabilities. This laboratory developed the world's first computer-driven voice system to handle collect calls, calls billed to a third party and calling card calls, all without operator intervention. The system was introduced in 1989 in both the U.S. and Canadian markets.

Construction was completed on an advanced technology laboratory in Nepean, near Ottawa, where BNR scientists will concentrate on researching and developing opto-electronic devices, the highly sophisticated microchips which are the heart of Northern Telecom's new FiberWorld line of products.

In the United States, BNR and Northern Telecom have announced plans to consolidate 13 offices and facilities into a new, 18-acre installation at Richardson, Texas, with marketing and R&D located at the same site. This will assist in the development of new networking products and services to address specific customer needs.

Meeting customer needs

Virtually all the R&D performed in the BCE family is applied to development and improvement of telecommunications products and services to meet customer requirements. The intense competition among manufacturers and the enormous strides in technology mean that, to stay

The DMS SuperNode switch, developed by Bell-Northern Research, delivers new features and will route thousands of telecommunications lines. Bell Canada is adding these units throughout its systems.

in business, a manufacturer must develop, test and market products in the shortest time frame possible, and those products must function flawlessly in all markets.

Northern Telecom has a reputation as a low-cost, top-quality supplier. BNR's superior application of technology at all phases of the design cycle helps ensure the continued success of this strategy.

The 1990s will probably see changes more fundamental and far-reaching than any in the 110 years of telecommunications history. Telecommunications networks will routinely handle voice, text, image and video, driven by technological advances bringing massive increases in processing power, bandwidth and memory.

The announcement of Northern Telecom's FiberWorld in 1989 was a major step in this direction, increasing 3,000-fold the switching and transmission speeds of data, image and voice communication,while lowering costs to telecommunications companies.

Over the next decade, BNR will develop products that will bring FiberWorld capabilities into homes and businesses.

DMS – World's largest real-time system

The changes that have taken place over the past decade are radical. As an example, the computer software that BNR developed to support Northern Telecom's DMS-100 and DMS SuperNode family of digital telecommunications switches has grown to over 12 million lines of high-level language code supporting over 6,000 features, making this the largest real-time software-based system in the world. As a comparison, the entire U.S. space shuttle program uses only some 3.5 million lines of real-time software code.

DMS software involves some 800 of BNR's 2,000 software designers working in Canada, the U.S. and the United Kingdom and enables Northern Telecom to offer the most complete portfolio of advanced digital switching services in the telecommunications industry today.

When Northern Telecom secured important data packet contracts in Sweden and for the worldwide banking network S.W.I.F.T., BNR quickly developed the specific protocols needed to handle these jobs. BNR has adapted technology of the DMS family of digital switches for international markets in Japan, China, Morocco, the United Kingdom, Mexico and Australia.

BCE management believes in the importance of supporting and improving the educational opportunities of future scientists and engineers. BNR's University Interaction Program provided more than $2.3 million in funding in 1989 for researchers at 20 Canadian institutions of higher education. The company also employed more than 900 Canadian university students during the year, offering an opportunity to work with BNR's R&D professionals. In 1989, BNR also hired more than 180 graduating Canadian university students.

BCI has several contracts with the Kingdom of Morocco to provide 300,000 lines of digital telephone equipment. Here, a BCI manager in Rabat consults with a Moroccan colleague as cable is laid.

INTERNATIONAL CONSULTING

BCI – Selling special skills

The worldwide demand for modern telecommunications systems is providing important marketing opportunities for BCE's wholly owned consulting subsidiary, Bell Canada International Inc. In 1989, BCI worked on contracts in 18 countries; over the past two decades, BCI has completed contracts in more than 70 countries.

International consulting provides the opportunity to market skills developed by BCE's telecommunications companies. It also promotes sales of products and systems developed by BCE subsidiaries such as Northern Telecom, Bell Canada, Bell-Northern Research and BCE Mobile Communications.

BCI has notable advantages in providing consulting services abroad. Because of the BCE strength in all aspects of telecommunications, BCI has access to an extraordinary breadth of expertise in research, manufacturing and operations. BCI can provide expertise, offer services and market products in both French and English as well as other languages. Products and systems offered by Northern Telecom, Bell Canada and other BCE subsidiaries have a high reputation worldwide for quality and competitive cost, and BCI employees are particularly familiar with these systems.

BCI also offers expertise on a wide range of subjects essential to managing a telecommunications company. These include compilation and publication of telephone directories; management of billing and administration systems, data bases and record keeping; personnel management; and public information programs.

New contract gains

BCI managers are working in the Kingdom of Morocco as part of a five-year contract signed in July 1988 to supply 300,000 lines of Northern Telecom digital telephone switching equipment. In early 1990, BCI and Moroccan authorities negotiated a new agreement under which development of the network will be accelerated. This includes installation of the most modern equipment, such as DMS-100, -200 and -300 digital switches. The contract also includes three computerized network management systems and the training of Moroccan personnel.

The value of the present contracts is $300 million, while agreement on another contract now under negotiation with the Moroccan Office of Post and Telecommunications would bring the total value of all contracts to $400 million. In this event, another 110 BCI employees will join the 65 already working in the kingdom. BCI is also proposing a technology transfer leading to construction of a plant in Morocco to manufacture DMS switches. The total BCI-Moroccan investment in this project would be some $25 million.

During the year, BCI made its first sale in the Japanese market. International Digital Communications (IDC), a Japanese consortium involved in the establishment of a competitive overseas long distance telephone company, purchased Access International. This is a portfolio of services developed by BCI and Bell Canada for improving international telecommunications inbound and outbound for a specific country; it includes a centralized switch maintenance, management and surveillance system. Access International improves the accessibility, capabilities and reliability of international telecommunications. This multi-million dollar sale demonstrates that the demanding Japanese market can be penetrated by systems of proven high quality.

BCI sold to Telecom Australia a customer data base and billing system developed by Bell Cellular. Ten BCI consultants will work to modify and implement the system. Extended license fees will provide BCI with revenues over the next five years. Bell Cellular, a subsidiary of BCE Mobile, is working closely with BCI to identify other opportunities to license its advanced technology.

In Malaysia and Venezuela, BCI continued work on modernization and automation of customer services functions.

BCI INCORPORATED

BCI Incorporated is a subsidiary which serves the United States market from offices in Reston, Virginia; Richardson, Texas; Raleigh, North Carolina; and San Francisco, California. It markets network operations support products to telephone companies, network integration and management systems to large corporations, private network design to many businesses and a range of other engineering and management products.

MOBILE COMMUNICATIONS

BCE MOBILE – A booming market

BCE Mobile Communications Inc., which is 73 per cent owned by BCE, is a leader in all forms of mobile communications. The growth in these markets has been extremely strong and is expected to continue into the 1990s. At the same time, the race to develop new services and to apply constantly improving technology makes this a highly competitive field.

These services are supplied by three wholly owned subsidiaries of BCE Mobile: Bell Cellular Inc., National Pagette Ltd. and National Mobile Radio Communications Inc. Another service, MobiData Communications Inc., is a joint venture with Motorola Canada Ltd. in which BCE Mobile holds a 60 per cent interest.

For 1989, BCE Mobile reported revenues of $242 million, compared with $171 million in 1988. Consolidated operating income was $18 million, compared with $10 million in 1988. BCE Mobile reported a loss of $7 million, compared with a gain of $2 million in 1988.

The loss for the year reflects higher depreciation expense in Bell Cellular, resulting from a change in accounting policy put into effect July 1. Depreciation periods have been shortened to reflect more closely the estimated useful life of these assets in a technology which is evolving rapidly.

Consolidated cash flow, which is not affected by the change in depreciation policy, showed solid improvement. In 1989, cash flow generated from operations was $46 million, up 44 per cent from $32 million in 1988.

BELL CELLULAR – 60% growth

Canada is one of the world's largest users of cellular telephones. Ontario and Quebec, the area served by Bell Cellular, are Canada's most populous provinces with the greatest market potential. During the year, 53,000 new customers joined Bell Cellular's network, bringing the total to 141,000, an increase of 60 per cent over the number of customers at the end of 1988.

Mobile communications permits these policemen in Berthierville, Quebec, to connect directly with the main police computer. Such mobile computer links may also be used by salespeople, delivery personnel, lawyers and others who frequently work outside the office.

Bell Cellular's service began only in July 1985 and now extends from beyond Quebec City to Sudbury, Ontario, a distance of 1,725 kilometres. The cellular area covered by Bell Cellular was expanded during the year to include the northern Ontario centres of North Bay and Sudbury and the Saguenay-Lac-St. Jean area of Quebec.

In addition, through the CellNet Canada co-operative, Bell Cellular customers have access to a network that by mid-1990 will virtually cross the continent, paralleling the TransCanada Highway. Canadian and U.S. technologies are compatible, so Bell Cellular customers can use their units in the U.S. as well.

Inevitably, the growing demand will outpace the capacity of present analog technology, particularly in high-density areas of Toronto and Montreal. BCE Mobile is preparing for the advent of digital mobile equipment within two years. This will permit significant expansion of capacity and provide improvements in service quality.

Bell Cellular contributed $154 million to consolidated revenues of BCE Mobile, an increase of 60 per cent over 1988.

NATIONAL PAGETTE

National Pagette provides both paging and telephone answering services in Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. Paging accounts for over two-thirds of its revenues. At the end of 1989, National Pagette had 131,000 pagers in service. For 1989, National Pagette contributed $59 million to consolidated revenues of BCE Mobile, up 13 per cent over 1988.

Paging service is being constantly upgraded through the application of new technology. In June, National Pagette introduced a new service called StockALERT, through which subscribers using a small alphanumeric pager may receive market indices and timely updates to pre-selected stocks.

NATIONAL MOBILE RADIO COMMUNICATIONS

National Mobile contributed $29 million to consolidated revenues of BCE Mobile, compared with $23 million in 1988. However, despite the increase in revenue, higher expenses meant National Mobile had a disappointing year with negative net income. The management of BCE Mobile is examining the profitability of each line of business to determine those which have the best prospects.

MOBIDATA COMMUNICATIONS

The data radio network of MobiData Communications was launched in Toronto and Montreal in 1989 and will be available in other major cities across Canada by the end of 1990. Subscribers will also have access to major cities in the United States through ARDIS, a public mobile data network jointly owned by Motorola and IBM.

The service permits people who frequently work outside the office, such as sales representatives, delivery personnel, repair technicians, lawyers and real estate agents, to maintain direct contact with their office computers by means of portable computers or terminals. Unlike telephone service, MobiData has no long distance rates, and prices are the same whether information is transmitted within a city or across the continent.

MSAT project

BCE Mobile will participate in the MSAT mobile satellite service, to be completed in 1993, and will become a distributor of MSAT products and services. The MSAT system is being developed in cooperation with the American Mobile Satellite Consortium to provide an integrated voice and data mobile communications system throughout North America.

FINANCIAL SERVICES

MONTREAL TRUSTCO – A new growth area

The acquisition of Montreal Trustco Inc., in its 100th anniversary year, brought BCE into another field of business activity. As a wholly owned subsidiary of BCE, Montreal Trust continues to offer financial and trust services to individuals, businesses and other organizations through its Canada-wide network of more than 180 branches and offices.

To acquire all the shares of Montreal Trustco, the holding company of Montreal Trust, BCE paid a total consideration of $877 million consisting of $541 million in cash and $336 million of BCE common shares.

A move into financial services had been considered for some time, because provision of financial services is an area of growth which corresponds well to BCE's structure and goals. BCE also had lengthy experience with several aspects of the financial services business, notably stock transfer service and the management of pension funds.

Montreal Trust's results for 1989 showed a net income of $71 million, up 16 per cent over 1988. Earnings per common share were $1.69 compared with $1.62 a year earlier, with an 11 per cent increase in average number of common shares outstanding. Return on average assets was 0.67 per cent, compared to 0.70 per cent in 1988. Total corporate assets of $11 billion at year-end were eight per cent higher than a year ago. Since the acquisition of Montreal Trustco on April 24, 1989, it has contributed $37 million ($0.13 per share) to BCE's consolidated earnings.

Over the past decade Montreal Trust has undertaken a program of development in terms of growth, profitability and diversification; this has been accomplished both through strong internal growth and through acquisitions. Compound earnings growth over the past five years has been 34 per cent, while compound asset growth has been 35 per cent. Capital increased to $619 million at the end of 1989 from $265 million in 1985.

Return on average common shareholders' equity (ROE), an important measure of profitability, was 16 per cent in 1989, compared with 18 per cent in 1988. The decrease resulted primarily from an additional $56 million in shareholders' equity added at the end of 1988. ROE has exceeded the corporate objective of 15 per cent in each of the past three years.

Increased commercial lending

Commercial lending in 1989 represented 21 per cent of the balance sheet of Montreal Trust. Montreal Trust is one of Canada's major income property lenders, providing financing for apartment buildings, commercial buildings, industrial buildings and condominium projects. This loan portfolio increased by three per cent to $2.2 billion.

Montreal Trust has a Canada-wide network of more than 180 branches and offices, and offers a wide range of financial services. This branch is located at Place Ville Marie in Montreal.

Montreal Trust also provides financing to larger borrowers such as major corporations, government agencies and crown corporations. In 1989, the corporate and government lending division achieved a total loan portfolio of $673 million, an increase of $96 million over 1988.

The commercial lending business was expanded further into the small and medium business sectors by Montreal Trust's 1988 acquisition of RoyNat, a subsidiary with 26 branches across Canada. RoyNat's net earnings for 1989 were $13 million, compared with $16 million in 1988, with a financing volume of $627 million. The average loan size exceeded $1 million in 1989.

Deposits and investment certificates, which are usually considered traditional banking services, account for 60 per cent of the balance sheet. The Canada-wide retail expansion program launched in 1983 remained a priority in 1989, and new branches were opened in seven locations across Canada.

At year-end, total retail deposits reached $5.8 billion, an increase of nine per cent over 1988. A strong retail base is important in providing a diversified source of funds for all lending activities; retail clients are the major source of funding for the company.

In the residential mortgage market, which accounts for 35 per cent of corporate assets, expansion was strong. The residential mortgage portfolio increased 14 per cent over 1988 to $3.9 billion at year-end. New mortgage production increased 11 percent over 1988, amounting to $1.25 billion; the average value of a new residential loan was $80,195.

Some 21.5 per cent of Montreal Trust's residential mortgages were generated through its real estate brokerage business. In this area, Western Realty and Associates B.C. Ltd., a Vancouver-based company, was acquired in 1989. In 1989, commissions earned from real estate brokerage were $68 million, eight per cent lower than in 1988.

Increased international activity

To supplement funding from its retail deposit base and to reduce the overall cost of funds, Montreal Trust has developed a significant presence in the international financial markets. In 1989, ten issues raised $671 million. Since 1985, 18 issues have raised $1.3 billion.

Montreal Trustco's investment management affiliates, Montrusco Associates Inc. and MT Associates Investment Counsel Inc., managed assets of $4.5 billion on behalf of corporate and personal clients in 1989, an increase of nine per cent over 1988. Corporate accounts, consisting mainly of pension and benefit accounts, totalled $3.5 billion at year-end. Montreal Trust's Pension Administration Services has assets under administration of $27.7 billion.

Montreal Trust is Canada's leading provider of stock and bond transfer and corporate trust operations, handling over 4.7 million shareholder accounts for some 1,800 companies. This includes business brought in by the acquisition and successful integration of the stock transfer and corporate trust operations of Canada Trust in the fall of 1988.

Montreal Trust will become transfer agent and registrar in Canada for BCE shares in May 1990. BCE has long provided these services to its own 290,000 registered common and preferred shareholders, as well as to the 19,000 shareholders of Bell Canada, Northern Telecom, BCE Mobile Communications and Télébec.

BIMCOR INC.

BCE's own pension fund management subsidiary, Bimcor Inc., manages funds exceeding $7 billion, which include pension assets of BCE, Bell Canada, Northern Telecom, Télébec, Newfoundland Telephone and certain other BCE subsidiaries.

BCE VENTURES CORPORATION

The investment of venture capital offers the opportunity to participate in the development of emerging companies and technologies. BCE Ventures Corporation is owned 72 per cent by BCE, 25 per cent by Northern Telecom and three per cent by Bell Canada Technologies Management Corporation, a subsidiary of Bell Canada. Since its inception in June 1988, the company has invested $7.4 million in six companies in Canada. Another $7.8 million was invested in five companies in the United States through a wholly owned subsidiary, BCE Venture Capital Inc.

BCE Ventures Corporation also manages a portfolio of venture capital investment on behalf of Northern Telecom.

ENERGY

Energy interests restructured

BCE now has major interests in two companies operating in the energy sector: TransCanada PipeLines Limited (TCPL), which owns and operates one of the world's longest natural gas pipelines, extending from Alberta to Quebec; and Encor Inc., which is active in exploration, development and production of crude oil and natural gas, both in Canada and internationally.

These two companies became separate entities on May 2, 1989, when the oil and gas assets of TCPL were consolidated into the newly formed Encor Inc. Shares of Encor were distributed to TCPL's common shareholders on the basis of one Encor share for every TCPL share held. BCE holds 48.9 per cent of the common shares of each company. BCE also purchased $226.5 million of convertible preferred shares of Encor. Common shares of each company now trade separately on stock exchanges.

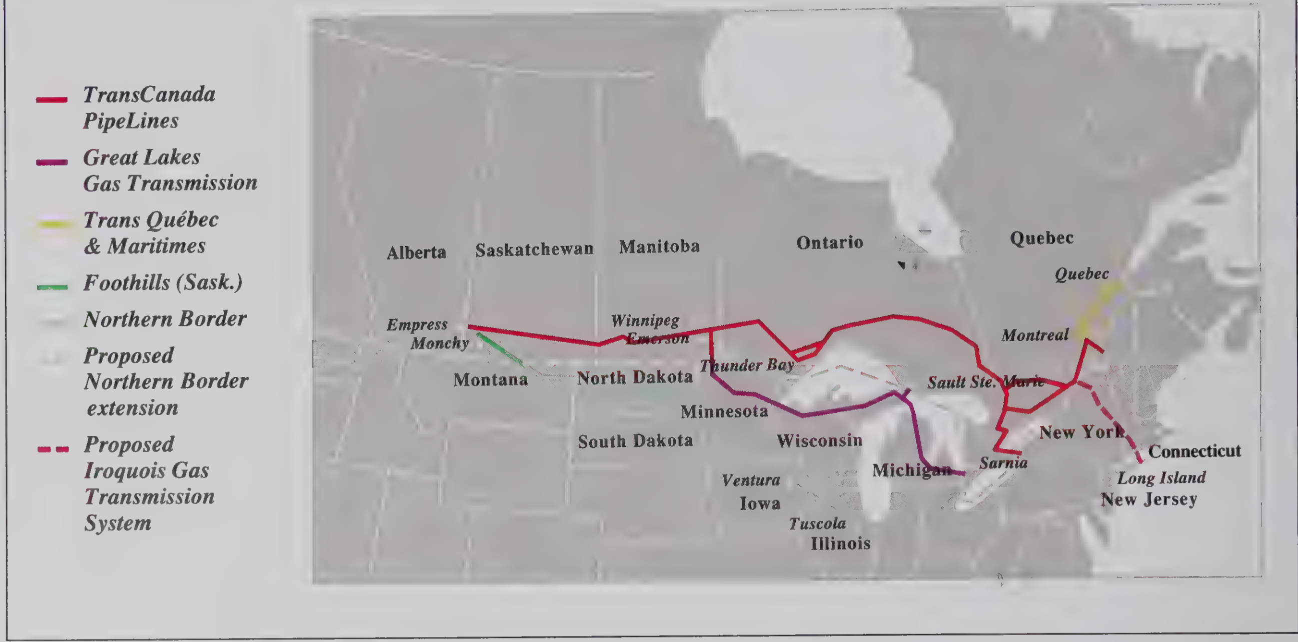
From the point of view of shareholders, each company now represents a clear-cut investment decision, whose advantages are much easier to weigh and whose value is more truly reflected in the market price. Credit agencies find the new TCPL easier to assess for credit worthiness, an important consideration for financing pipeline expansion and improvement.

TCPL – Results up

TCPL's financial results for the year showed marked improvement over those of 1988. Net income applicable to common shares from continuing operations for 1989 was $178 million ($1.18 per share), compared with $35 million ($0.24 per share) in 1988. The 1988 figures reflect investment and asset provisions of $72 million ($0.49 per share). The improvement in 1989 net income includes an income tax benefit of $21 million ($0.14 per share) resulting from use of prior years' tax losses. In addition, increased pipeline earnings, higher interest income and foreign exchange benefits contributed to the improved performance.

The contribution to BCE consolidated income was $66 million ($0.22 per share) compared with a loss of $37 million ($0.13 per share) in 1988.

TCPL associated pipelines and projects



TCPL transported record volumes of natural gas to customers in Canada and the United States. Total deliveries for 1989 were 1,418 billion cubic feet, 5.4 per cent more than in 1988. Export deliveries increased by 14.5 per cent to 387 billion cubic feet. Deliveries within Canada grew by 2.3 per cent to 1,031 billion cubic feet.

TCPL's gas transport operations are regulated by the National Energy Board (NEB) which in August released its decision on TCPL's 1988-1989 tolls application. For 1989, the NEB approved a 13.75 per cent rate of return on a deemed common equity level of 30 per cent; for 1988, the approved rate of return was 13.25 per cent. The company's previously reported earnings did not change as a result of this decision. For 1990, the NEB recently approved a 13.25 per cent rate of return.

Western Gas Marketing Limited, TCPL's marketing subsidiary, reported total sales volumes of 1,067 billion cubic feet in 1989, a slight decrease from 1988. Export sales increased while domestic sales declined.

Opportunities growing

As a pipeline utility, TCPL is in an excellent position to benefit from the growing demand for natural gas. Changes in government regulation, both in Canada and the United States, have brought more competition to the natural gas market and have reduced barriers to gas export. In addition, gas is increasingly regarded in both countries as a clean-burning, relatively non-polluting energy source.

The strength and stability of the Canadian natural gas industry enabled TCPL to refinance the Topgas program in early 1990, significantly reducing debt costs for the 750 gas producers holding contracts with the company. Topgas, set up in 1982 and administered by TCPL, permitted orderly financing for gas producers at a time of severe stress in the industry. The $2.7 billion Topgas principal has been reduced to $1.15 billion and should be repaid as scheduled by 1994.

Within Canada, TCPL has a very strong position. If Alberta natural gas moves anywhere east or southeast of that province, TCPL helps to deliver it, either on its mainline or on associated pipelines in which it holds an interest. The mainline is a source of steady earnings because it operates on the basis of a regulated rate of return, unaffected by variations in throughput or gas prices. Market growth, leading to expansion of the asset base, generates increases in earnings.

TCPL's expansion programs in 1989 brought capital expenditures to $670 million, increasing transmission capacity by 137 billion cubic feet annually. The company plans to spend another $3 billion in expansion and improvements over the next three years.

In the near future, the northeastern United States will become a major new market for Canadian gas exports. The 575-kilometre Iroquois Gas Transmission pipeline project, scheduled to begin operations November 1, 1991, will stretch through New York State and Connecticut, terminating on Long Island; TCPL has a 29 per cent interest and will be the operator. Final approval by U.S. authorities is expected in 1990.

New corporate offices

TCPL has announced that it will move corporate offices to Calgary from Toronto in 1990, in order to be closer to the Calgary-based gas producing industry.

ENCOR – Debt reduced

Encor Inc. is a major Canadian energy company, with $1.5 billion in assets. It has proven reserves of approximately 130 million barrels of conventional and synthetic oil and natural gas liquids and 1.2 trillion cubic feet of natural gas. Daily production in 1989 averaged 210 million cubic feet of natural gas and 40,100 barrels of oil and natural gas liquids, including 5,100 barrels from international properties.

Encor also has a solid position in terms of land holdings for exploration and development. In Canada, the source of over 90 per cent of Encor's production and reserves, the company has 1.9 million net undeveloped acres; in addition it has 3.9 million net acres overseas in six countries. Holdings in New Zealand, Australia and Indonesia have particularly high potential, and the company has other interests in Asia and Europe.

For the eight months since the restructuring, Encor reported a net loss of $38.5 million on revenues of $210 million. Cash flow for the eight months, before exploration expenses and proceeds from property disposition, totalled $59 million. Pro forma results for the entire year were a loss of $49 million on revenues of $318 million, compared with a loss of $124 million on revenues of $302 million in 1988.

The fluctuating price of oil and gas, a worldwide phenomenon, continues to affect Encor's earnings. However, management has decided to concentrate on three areas it can control: reduced capital expenditures, reduced overhead expenditures and a lower debt ratio. Capital spending and exploration expenses have been reduced to $88 million in 1989 from $155 million in 1988, reflecting Encor's goal of funding these programs largely from discretionary cash flow.

In order to reduce debt, Encor disposed of over $200 million in assets in calendar 1989. At year-end, debt was 41 per cent of the capital structure, compared with 48 per cent at the beginning of the year. Proceeds from these sales have been applied to reduction and deferral of future scheduled debt repayments, so the earliest contractual repayment date is December 31, 1992. However, based on debt outstanding at year-end, Encor will not have any principal repayments due until December 31, 1993. This will give Encor the flexibility to pursue capital expenditure programs focused on asset value appreciation.

(Some figures restated — see notes to consolidated financial statements.)

RESULTS OF OPERATIONS

Net income

BCE consolidated income from continuing operations in 1989 was $1,201 million ($3.91 per common share), compared with $853 million ($2.97 per share) in 1988 and $1,070 million ($3.85 per share) in 1987. The loss from discontinued real estate operations of $440 million ($1.48 per share) reduced 1989 net income to $761 million. Consolidated income applicable to common shares in 1989 was $724 million ($2.43 per common share), compared with $841 million ($2.95 per share) in 1988 and $1,043 million ($3.87 per share) in 1987. Earnings per share in 1989 were based on an average of 297.5 million common shares outstanding, up 4.2 per cent from 285.4 million in 1988, which had increased 5.9 per cent from 269.4 million in 1987. BCE consolidated earnings per share in 1989 are after deducting preferred dividend requirements equivalent to $0.12, compared with $0.02 in 1988 and $0.12 in 1987.

The earnings for 1988 reflect provisions by two BCE companies: $242 million (US $200 million) established by Northern Telecom Limited (Northern Telecom) to cover the costs of a restructuring program announced during the fourth quarter of 1988; and $72 million by TransCanada PipeLines Limited (TCPL) following a reduction in the carrying value of certain of its assets. Earnings in 1988 also reflect other provisions of $97 million, related to international operations, printing and publishing. The provisions, after giving effect to taxes and minority interest, reduced earnings in 1988 by $190 million and earnings per share from $3.62 to $2.95.

Contributions to earnings

Bell Canada contributed $818 million ($2.75 per common share) to BCE's net income in 1989 compared with $746 million ($2.62 per share) in 1988 and $694 million ($2.58 per share) in 1987. Northern Telecom, 53.1 per cent owned by BCE, contributed $222 million ($0.75 per share) in 1989 compared with $106 million ($0.37 per share) in 1988 and $227 million ($0.84 per share) in 1987. Other companies contributed $161 million ($0.54 per share), compared with $1 million (less than $0.01 per share) in 1988 and $155 million ($0.57 per share) in 1987.

Included in the 1989 contributions from other companies was a contribution of $66 million ($0.22 per share) from TCPL; and a contribution of $37 million ($0.13 per share) from Montreal Trustco Inc. (Montreal Trustco), acquired in the second quarter of 1989. This compares with a loss of $37 million ($0.13 per share) from TCPL in 1988 and a contribution of $41 million ($0.15 per share) in 1987. TCPL included oil and gas operations to May 2, 1989.

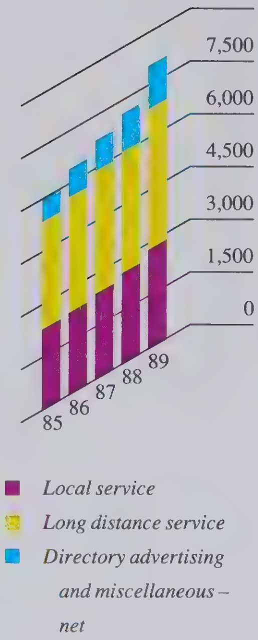
The discussion of the results of the continuing operations, which follows, is in parallel with the format of the consolidated income statement. It addresses Telecommunications services (carried out by Bell Canada and other telecommunications subsidiaries), Telecommunications equipment manufacturing (carried out by Northern Telecom), Financial services (carried out by Montreal Trustco), and Other operations, which include international consulting services, printing and publishing (most of which were sold in 1988), and other activities.

Telecommunications services

Operating revenues of Bell Canada and other telecommunications operating subsidiaries increased by $919 million (13 per cent) in 1989, and by $334 million (4.9 per cent) in 1988. The acquisition of two telecommunications companies, Northwestel and Terra Nova Telecommunications (TNT), in the fourth quarter of 1988 contributed approximately 13 per cent of the increase in 1989 over 1988.

Local service revenues of telecommunications subsidiaries increased by $254 million (9.7 per cent), in 1989, compared with an increase of $142 million (5.7 per cent) in 1988. The increases in local service revenues in 1989 and 1988 were due mainly to growth in network access services, in revenues generated from service options, and to the acquisition of Northwestel and TNT in the fourth quarter of 1988. Network access services, which account for the major portion of local service revenues, increased by 6.1 per cent in 1989, compared with 4.4 per cent in 1988. This growth occurred in both the business and the residential markets, and was slightly higher in 1989 because of a strike at Bell Canada in 1988. The 1988 local service revenue increase, resulting

Telecommunications services – revenues
($ millions)



from growth in network access services, was partially offset by the impact of conversions by business customers from traditional rental services to sales-type lease services, and by some competitive erosion in the rental of terminal equipment.

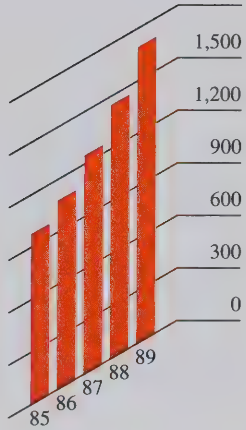
The Canadian Radio-television and Telecommunications Commission (CRTC) fixed Bell Canada's permissible range of rate of return on average common equity for 1988 at the same level as for 1987 (12.25 per cent to 13.25 per cent) and, to achieve the mid-point of that range, ordered long distance rate reductions effective April 1, 1988, in order to reduce revenues in 1988 by approximately $40 million. Considering that Bell Canada's earnings would exceed the permissible range, the CRTC ordered further long distance rate reductions effective May 16 and June 1, 1988 in order to reduce revenues for the remainder of 1988 by approximately an additional $85 million. In a decision released in July 1989, the CRTC decided that the deferred tax liability of Bell Canada and Northwestel should be adjusted as at January 1, 1989, to reflect a reduction in the federal statutory corporate income tax rate effective July 1, 1988, and that the benefit of this adjustment should go to subscribers in the form of long distance rate reductions. The CRTC directed that the adjustment of $293 million ($290 million applicable to Bell Canada) should be amortized over a period of five years commencing on October 2, 1989. In its decision, the CRTC stated that, as a result of these measures, the rate reductions will have little effect on the rate of return of those companies over the five-year period.

Long distance service revenues increased by $397 million (11.3 per cent) in 1989, compared with $102 million (three per cent) in 1988. The 1989 increase in long distance service revenues is the first significant increase since rate reductions were first introduced in 1987. The 1989 growth was due primarily to increases in the number of long distance messages and also reflects the curtailment of 1988 long distance service revenues due to the effect of the strike at Bell Canada in 1988. The increases in long distance service revenues in 1989 and 1988 were adversely affected by the rate reductions implemented in the second quarter of 1988 and the fourth quarter of 1989.

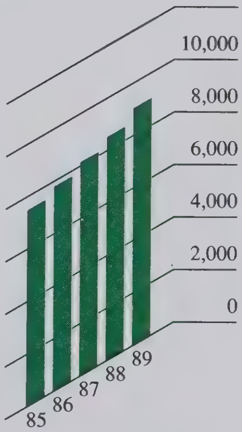
The number of long distance messages increased by 16.5 per cent to 1,695 million in 1989 over 1988 and by 16 per cent in 1988 over 1987. The increases reflect the strength of the economic climate and, to a lesser extent, stimulation in demand due to rate reductions implemented since 1987, notwithstanding the 10 per cent federal telecommunication services tax on users introduced January 1, 1988 and a strike at Bell Canada in 1988.

Operating expenses increased by $722 million (13.7 per cent) in 1989, and by $266 million (5.3 per cent) in 1988. Increases in salaries and wages, and depreciation expense contributed to the growth in operating expenses in 1989 and 1988. The 1989 increase also reflects the acquisition in the fourth quarter of 1988 of two telecommunications operating companies, Northwestel and TNT, and the effect of the

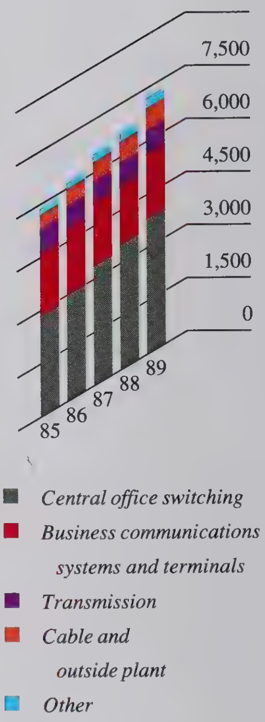
Long distance messages
(millions)



Network access services
(thousands)



Northern Telecom revenues by product lines
($ millions)



strike in the third quarter of 1988 at Bell Canada, which resulted in lower than anticipated salaries and wages and delayed expenditures in 1988.

Telecommunications equipment manufacturing
Northern Telecom reports its results in U.S. dollars but in this review, unless otherwise indicated, Northern Telecom's results are translated into Canadian dollars.

Northern Telecom's revenues in 1989 were $7,161 million (US $6,106 million), up 8.5 per cent from $6,598 million (US $5,408 million) in 1988, which were up two per cent from $6,471 million (US $4,915 million) in 1987. These increases were attributable primarily to volume growth rather than price increases. Revenues increased for all of the reported product lines in 1989, with the most significant gain recorded by central office switching equipment. Revenues in 1989 increased in Canada and in the United States, and in international markets.

Revenues from sales in the United States were $4,274 million (59 per cent of total revenues) in 1989, up 3.5 per cent from $4,128 million (62 per cent of total) in 1988, which were up 2.1 per cent from $4,042 million (62 per cent of total) in 1987. The growth in revenues from 1987 to 1989 occurred across all product lines but resulted mainly from increased sales of central office switching equipment to the telecommunications operating companies.

Canadian revenues in 1989 increased 12.8 per cent to $2,569 million (36 per cent of total revenues) from $2,277 million (34 per cent of total) in 1988, which were up 5.5 per cent from $2,159 million (33 per cent of total) in 1987. The growth in revenues for 1988 and 1989 resulted mainly from increased capital spending programs by the telecommunications operating companies as the Canadian economy remained strong.

Revenues from international operations of $375 million (five per cent of total revenues) in 1989 increased 48.8 per cent from $252 million (four per cent of total) in 1988, which decreased 21.7 per cent from $322 million (five per cent of total) in 1987. The increase in revenues in 1989 was due mainly to higher shipments to Japan, other Pacific Rim countries, and the Caribbean and Latin American markets. The decrease in revenues in 1988 reflected the sale of some European businesses to STC PLC (STC) in February 1988.

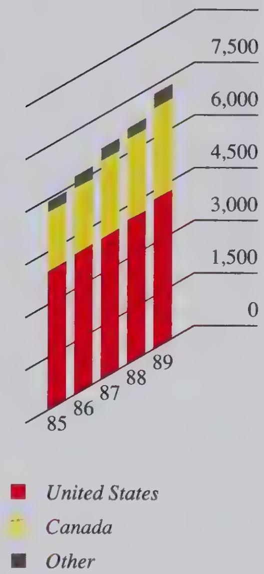
Central office switching revenues for 1989 were $3,852 million (53 per cent of total revenues), up 7.5 per cent from 1988 revenues of $3,583 million (54 per cent of total), which were up 4.8 per cent from $3,420 million (53 per cent of total) in 1987. The increases in 1989 and 1988 occurred despite price reductions and were due to increased demand from telecommunications operating companies in the U.S., Canada and international markets.

Business communications systems and terminals revenues increased in 1989 by 9.1 per cent to $1,762 million (24 per cent of total revenues) from $1,615 million (24 per cent of total) in 1988, which were slightly lower than $1,728 million (27 per cent of total) in 1987. The largest gains in 1989 were due to increased shipments in the United States and international markets.

Revenues from other products (principally transmission, cable and outside plant) were $1,604 million (23 per cent of total revenues) in 1989, up 9.9 per cent from $1,459 million (22 per cent of total) in 1988, which were up 6.1 per cent from $1,375 million (20 per cent of total) in 1987.

Gross profit increased in 1989 by $126 million to $2,821 million from $2,695 million in 1988, which was $45 million better than $2,650 million in 1987. The gross profit margin in 1989 was 39.4 per cent of total revenues, down from 40.8 per cent in 1988 and 41 per cent in 1987.

Northern Telecom revenues by geographic areas
($ millions)

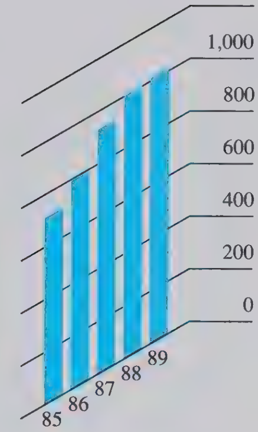


Orders on hand at December 31, 1989 were US $1.88 billion, compared with US $1.66 billion at year-end 1988 and US $1.59 billion at year-end 1987. The increased orders on hand were mainly for central office switching and transmission products for the U.S. market. Most of the current orders on hand are for delivery in 1990.

Selling, general and administrative (SG&A) expenses in 1989 were $1,335 million (19 per cent of total revenues), compared with $1,329 million (20 per cent of total) in 1988, which increased by 7.4 per cent ($92 million) from the 1987 figure of $1,237 million (19 per cent of total). The small increase in absolute amount in SG&A expenses, and decline as a percentage of revenues, was a result of specific programs and initiatives to improve efficiency and focus on SG&A expenditures. Net research and development (R&D) investment in 1989 was $863 million (12 per cent of total), compared with $874 million (13 per cent of total) in 1988 and $780 million (12 per cent of total) in 1987. R&D spending reflects new and ongoing programs for new products, and process development and advanced capabilities and services for a broad array of existing products.

During the fourth quarter of 1988, in order to enhance its ability to compete more effectively in global markets, Northern Telecom announced plans to phase out certain manufacturing plants and to restructure certain other businesses. As a result, a pre-tax provision of $242 million (US $200 million) was established to cover the estimated costs of this restructuring program. The majority of this provision was used in 1989. The remaining balance (about 20 per cent) will be used in 1990 and is allocated to specific projects.

Consolidated R&D expenditures
($ millions)



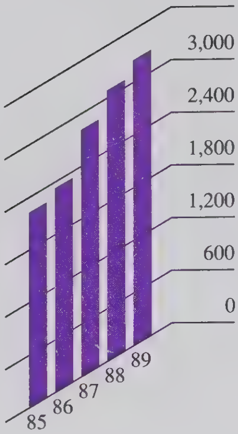
Research and development
Consolidated R&D expenditures, which include net R&D investment of Northern Telecom mentioned above, amounted to $1,008 million in 1989, compared with $998 million in 1988 and $925 million in 1987.

Financial services
Montreal Trustco, which was acquired by BCE in the second quarter of 1989, had operating revenues and expenses of $985 million and $927 million, respectively, and net revenues of $58 million, since the acquisition. The revenues of Montreal Trustco for the entire year 1989 were $1,392 million, compared with $1,107 million in 1988, and net income was $71 million ($62 million in 1988).

Other operations
Other operations include international consulting services; printing and publishing, most of which were sold in 1988; and other activities. Net revenues were $18 million in 1989, compared with $40 million in 1988, and $149 million in 1987. The decreases in net revenues from 1987 to 1989 were due mainly to the sale in 1988 of most of the printing and publishing activities and the gradual reduction in international consulting services, reflecting the reduced level of activities in Saudi Arabia. The main contract with the Kingdom of Saudi Arabia ended on December 13, 1988, although some smaller contracts remain in force.

Associated companies
The equity in net income of associated companies was $173 million in 1989, compared with $38 million in 1988, and $108 million in 1987. The increase in 1989 over 1988 was due principally to an increased contribution from TCPL, which included oil and gas operations up to May 2, 1989; and the improved results of Encor Inc., including the retroactive adoption of the successful efforts method of accounting for oil and gas. The decrease in 1988 from 1987, was due

Gross capital expenditures
($ millions)



mainly to a reduced contribution from TCPL, principally BCE's share ($61 million) of a combination of a loss of $53 million incurred by TCPL on the sale of all its United States oil and gas properties, and of non-recurring items written off aggregating $72 million recorded by TCPL to reduce the carrying value of certain assets in 1988.

Other investments

BCE holds an investment of approximately $402 million in notes and accrued interest of Kinburn Corporation (Kinburn). Kinburn is experiencing severe financial difficulties and, in the fourth quarter of 1989, BCE started provisioning against the income from the Kinburn investment. BCE is now examining closely various means to resolve the situation. BCE holds an equity interest of 12.4 per cent in SHL Systemhouse Inc. (Systemhouse), a provider of systems integration services. Systemhouse is one of two principal subsidiaries of Kinburn, the other being Paperboard Industries Corporation (Paperboard), a manufacturer of recycled paperboard and supplier of paperboard packaging. Systemhouse and Paperboard are independently financed corporations and are not liable for the debt of Kinburn.

Discontinued operations

Effective as of December 31, 1989, BCE decided it would no longer carry on commercial real estate operations. In light of the significant operating losses incurred by BCE Development Corporation (BCED) and an extensive write-down of the value of BCED real estate properties, BCE has written off its common equity investment in BCED. Therefore, BCED is reflected as a discontinued operation in BCE's financial statements (see note 2 of the notes to consolidated financial statements).

As a consequence of the 1989 financial results of BCED, a financial restructuring of BCED will be required. In this regard, BCE has entered into an agreement with Carena Developments Limited (Carena) to facilitate the implementation of this restructuring. Pursuant to this agreement, BCE has agreed to advance up to a limit of $250 million ($97 million advanced as of December 31, 1989), which it expects to recover. BCE is not required to provide any further financial support to BCED. Carena will provide the ongoing management to BCED.

LIQUIDITY AND CAPITAL RESOURCES

The principal requirement for funds is for capital expenditures and to acquire new and additional investments.

Consolidated net capital expenditures during 1989 were $3,191 million, compared with $3,052 million in 1988 and $2,853 million in 1987. Most of the capital expenditures were made by Bell Canada and Northern Telecom. Consolidated investments acquired amounted to $1,400 million in 1989, $1,064 million in 1988, and $1,490 million in 1987. Substantially all the investments in 1989 and 1988 were made by BCE. In 1987, the major portion was accounted for by Northern Telecom's investment in STC.

Information on liquidity and capital resources for BCE Inc. and its principal subsidiaries follows:

BCE Inc.

BCE raised $132 million of common equity in 1989, by means of the Dividend Reinvestment and Stock Purchase Plan, and $850 million by the issuance of preferred shares. During 1989, BCE invested $375 million in common shares of Bell Canada and acquired 100 per cent of the common shares of Montreal Trustco for a total consideration of $877 million, consisting of $541 million in cash and $336 million by the issue of 8.9 million BCE common

shares. On May 2, 1989, BCE acquired convertible preferred shares of Encor Inc. for a total consideration of $226.5 million, comprised of $211 million in cash and options valued at $15.5 million. BCE's net short-term borrowings amounted to $1,132 million at December 31, 1989, compared with $802 million at December 31, 1988.

During 1988, BCE invested $342 million in common shares of Bell Canada, $319 million in notes of Kinburn (which included consideration for businesses sold referred to below) maturing over six to eight years, $161 million in Quebecor (comprised of notes of $78 million and the balance of shares), $147 million in Northwestel, as well as an additional investment of $134 million in TCPL.

During 1988, BCE sold two businesses, Rolph-Clark-Stone Packaging Corporation and Bell Technical Services Inc., to Kinburn for notes of $110 million; and BCE sold its shares of Computer Innovations Distribution Inc. to a subsidiary of Kinburn for notes of $56 million. In the fourth quarter of 1988, BCE sold most of its printing businesses to Quebecor for $161 million. In April 1988, BCE issued, in the European market, $300 million of 9⅝% Notes, at a price to yield 9.53%, due 1993, to refinance short-term borrowings.

Bell Canada

Gross capital expenditures were $2,331 million in 1989, compared with $2,200 million in 1988. Capital spending has increased in 1989 and 1988 reflecting continued growth in demand for services. Bell Canada's capital expenditure program in 1990 is expected to increase by approximately three per cent to $2,400 million.

During 1989 and 1988, in addition to funds raised from the issue of shares to BCE, funds from external sources amounted to $825 million and $625 million, respectively.

During 1989, Bell Canada issued, in private placements in Canada, $325 million of preferred shares and completed a public offering in Canada of $300 million of debentures and $200 million of debentures in Europe. In 1988, these funds were obtained through issues of $375 million of debentures in Canada, $150 million of debentures in Europe, and the issue of preferred shares to the public in Canada for $100 million.

Bell Canada cash requirements in 1990 will be met principally by internally generated funds. External funds to meet the additional cash requirements are expected to be obtained through the offering of debt and preferred equity securities to the public as well as through the issue of additional common equity to BCE.

Northern Telecom

Capital expenditures in 1989 were $436 million, a decrease of 29 per cent from 1988 expenditures of $618 million. In 1990, Northern Telecom expects its capital spending to be at approximately the same level as in 1989. In 1989, Northern Telecom sold US $200 million 9¼% Notes due 1994, to refinance short-term debt. In 1989, the finance subsidiaries issued $156 million of fixed rate notes. In December 1988, Northern Telecom filed a shelf registration statement with the U.S. Securities and Exchange Commission allowing it to offer, from time to time, up to US $300 million of its debt securities and warrants to purchase debt securities. At December 31, 1989, the balance remaining was US $100 million.

In 1990, Northern Telecom expects to meet its cash requirements through cash provided by operations, and by external financing to be undertaken, if and when suitable opportunities become available.

CONTENTS

CONSOLIDATED INCOME STATEMENT

	For the years ended December 31	1989	1988*	1987*
		(millions of dollars)		
Total revenues		**$16,681**	**$14,445**	**$14,321**
Telecommunications services	Operating revenues	$8,011	$7,092	$6,758
	Operating expenses	5,976	5,254	4,988
	Net revenues — telecommunications services	**2,035**	**1,838**	**1,770**
Telecommunications equipment manufacturing	Revenues (note 1)	7,161	6,598	6,471
	Cost of revenues	4,340	3,903	3,821
	Selling, general, administrative and other expenses	2,198	2,203	2,017
	Restructuring costs (note 6)	—	242	—
		6,538	6,348	5,838
	Net revenues — telecommunications equipment manufacturing	**623**	**250**	**633**
Financial services	Revenues — Investment and loan income	851	—	—
	— Fees and commissions	134	—	—
		985	—	—
	Less: Interest expenses	730	—	—
	Operating expenses	197	—	—
		927	—	—
	Net revenues — financial services	**58**	—	—
Other operations	Operating revenues	524	755	1,092
	Operating expenses	506	715	943
	Net revenues — other operations	**18**	**40**	**149**
	Total net revenues	**2,734**	**2,128**	**2,552**
Other income (expense)	Equity in net income of associated companies (note 7)	173	38	108
	Allowance for funds used during construction	39	41	31
	Interest — long-term debt	(661)	(573)	(504)
	— other debt	(208)	(138)	(81)
	Unrealized foreign currency gains (losses) (notes 1 and 27)	2	2	(10)
	Miscellaneous — net (note 9)	156	152	99
		(499)	**(478)**	**(357)**
	Income before income taxes and minority interest	2,235	1,650	2,195
	Income taxes (note 8)	733	634	855
	Income before minority interest	1,502	1,016	1,340
	Minority interest	301	163	270
	Income from continuing operations	1,201	853	1,070
	Income (loss) from discontinued real estate operations (note 2)	(440)	(7)	6
	Net income (note 27)	**761**	**846**	**1,076**
	Dividends on preferred shares	37	5	33
	Net income applicable to common shares	**$ 724**	**$ 841**	**$1,043**
Earnings per share	Continuing operations	$ 3.91	$ 2.97	$3.85
	Discontinued real estate operations (loss)	(1.48)	(0.02)	0.02
	Earnings per common share (notes 12 and 27)	$ 2.43	$ 2.95	$3.87
	Assuming full dilution	$ 2.43	$ 2.95	$3.81
	Dividends declared per common share	$ 2.49	$ 2.45	$2.41
	Average common shares outstanding (thousands)	297,508	285,427	269,402

* Restated

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 27.

CONSOLIDATED BALANCE SHEET

Assets

(millions of dollars)

	At December 31	1989	1988*
Current assets	Cash and temporary cash investments	$ 141	$ 13
	Accounts receivable — principally from customers, including $45 (1988 — $50) from associated companies — less $44 (1988 — $32) for provision for uncollectibles	3,611	3,148
	Inventories (note 14)	1,100	1,071
	Income and other taxes receivable	—	103
	Other (principally prepaid expenses)	463	340
		5,315	**4,675**
Financial services	Short-term securities	936	—
	Loans receivable (note 15)	8,349	—
	Debt, equity and other investments (note 16)	1,457	—
		10,742	**—**
Investments	Associated companies (at equity) (notes 1 and 7)	2,904	2,750
	Other investments (note 11)	736	541
		3,640	**3,291**
Property, plant and equipment	At cost (note 18)	26,946	24,681
	Less: Accumulated depreciation	9,655	8,761
		17,291	**15,920**
Other assets	Long-term notes and receivables	1,304	1,305
	Deferred charges — unrealized foreign currency losses, less amortization	—	42
	— other	283	250
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	686	98
	Discontinued real estate operations (note 2)	—	407
		2,273	**2,102**
	Total assets	**$39,261**	**$25,988**

* Restated

On behalf of the Board of Directors:

Marcel Bélanger
Director

A.H. Ross
Director

Liabilities and shareholders' equity

	At December 31	1989	1988*
		(millions of dollars)	
Current liabilities	Accounts payable	$ 2,501	$ 2,418
	Advance billing and payments	162	431
	Dividends payable	215	209
	Taxes accrued	169	3
	Interest accrued	291	212
	Debt due within one year (note 19)	2,342	2,165
		5,680	**5,438**
Financial services	Demand deposits (note 17)	1,041	—
	Investment certificates and borrowings (note 17)	9,359	—
		10,400	**—**
Long-term debt	Long-term debt (note 20)	**7,005**	**6,210**
Deferred credits	Income taxes	2,430	2,326
	Other	448	445
		2,878	**2,771**
Minority interest in subsidiary companies	Preferred shares	1,262	844
	Common shares	1,630	1,498
		2,892	**2,342**
Preferred shares	Preferred shares (note 21) (Includes $200 million redeemable at option of holders)	**858**	**13**
Common shareholders' equity	Common shares (note 22)	5,276	4,802
	Contributed surplus	1,034	1,034
	Retained earnings	3,448	3,477
	Foreign exchange adjustment (note 23)	(210)	(99)
		9,548	**9,214**
Commitments and contingent liabilities (note 13)			
	Total liabilities and shareholders' equity	**$39,261**	**$25,988**

* Restated

Donald R. Newman
Vice-President and Comptroller

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended December 31	1989	1988	1987
	(millions of dollars)		
Balance at beginning of year			
As originally reported	**$3,681**	**$3,508**	**$3,115**
Prior year adjustments (note 3)	(204)	(163)	(152)
As restated	3,477	3,345	2,963
Net income	761	846	1,076
	4,238	**4,191**	**4,039**
Deduct:			
Dividends			
Preferred shares	37	5	33
Common shares	743	705	650
	780	**710**	**683**
Costs related to issuance and redemption of share capital of BCE Inc. and of subsidiaries	10	4	11
	790	**714**	**694**
Balance at end of year	**$3,448**	**$3,477**	**$3,345**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31	1989	1988*	1987*
	(millions of dollars)		
Cash and temporary cash investments were provided from (used for)			
Operations	$ 2,774	$ 2,578	$ 2,969
Investments	(5,059)	(3,946)	(4,475)
Financing	3,332	2,022	1,599
Dividends declared	(919)	(811)	(778)
Increase (decrease) in cash and temporary cash investments	128	(157)	(685)
Cash and temporary cash investments at beginning of year	13	170	855
Cash and temporary cash investments at end of year	**$ 141**	**$ 13**	**$ 170**
Cash provided from (used for) operations			
Income from continuing operations	$ 1,201	$ 853	$ 1,070
Items not affecting cash			
Depreciation	1,813	1,598	1,530
Minority interest	301	163	270
Deferred income taxes	88	188	137
Equity in net income of associated companies lower than (in excess of) dividends received	(69)	56	(21)
Allowance for funds used during construction	(39)	(41)	(31)
Other items	(74)	(94)	(75)
(Increase) decrease in working capital (note 25)	(447)	(145)	89
Net cash provided from operations	**$ 2,774**	**$ 2,578**	**$ 2,969**
Cash provided from (used for) investments			
Capital expenditures (net)	$(3,191)	$(3,052)	$(2,853)
Investments	(1,400)	(1,064)	(1,490)
Long-term notes and receivables	6	(98)	(312)
Net securities and loans — Financial services			
Short-term securities	313	—	—
Loans receivable	(661)	—	—
Debt, equity and other investments	(275)	—	—
Other items	149	268	180
Net cash used for investments	**$(5,059)**	**$(3,946)**	**$(4,475)**
Cash provided from (used for) financing			
Proceeds from long-term debt	$ 1,233	$ 1,179	$ 1,469
Reduction of long-term debt	(239)	(443)	(324)
Issue of preferred shares	847	—	—
Issue of common shares			
Common shareholder purchase plans	132	159	291
Acquisition of Montreal Trustco Inc.	336	—	—
In exchange for shares of a subsidiary	—	—	9
Issues of preferred and common shares by subsidiaries to minority shareholders	463	190	175
Redemption of preferred shares by subsidiaries	(51)	(11)	(200)
Notes payable and bank advances	61	1,127	273
Net deposits and borrowings — Financial services			
Demand deposits	80	—	—
Investment certificates and borrowings	560	—	—
Other items	(90)	(179)	(94)
Net cash provided from financing	**$ 3,332**	**$ 2,022**	**$ 1,599**
Dividends declared by			
BCE Inc.	$ (780)	$ (710)	$ (683)
Subsidiaries to minority shareholders	(139)	(101)	(95)
Total dividends declared	**$ (919)**	**$ (811)**	**$ (778)**

* Restated

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. Previously reported financial statements have been restated to reflect: a) BCE Development Corporation, which was fully consolidated, as a discontinued operation; and b) the prior period adjustments referred to in note 3.

With respect to the consolidated financial statements of BCE, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 27.

Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect, with the exception of BCE Development Corporation (BCED) (see note 2). The finance subsidiaries of Northern Telecom Limited (Northern Telecom) are also fully consolidated. The investments in associated companies (20% to 50% owned) are accounted for by the equity method.

At December 31, 1989, the direct and indirect subsidiaries of BCE (100% owned, unless otherwise indicated) included Bell Canada, Tele-Direct (Publications) Inc., Northern Telecom Limited (53.1%), Montreal Trustco Inc., BCE Information Services Inc., NewTel Enterprises Limited (56.0%), Télébec Ltée, Northern Telephone Limited (99.9%), Northwestel Inc., Bell Canada International Inc., and BCE Mobile Communications Inc. (73.0%).

The excess of cost of shares over acquired equity (goodwill) of subsidiary and associated companies is being amortized to earnings on a straight-line basis over its estimated life. The amortization, over periods up to 40 years, amounted to $59 million in 1989 (1988 — $45 million, 1987 — $23 million).

Telecommunications equipment purchased by Bell Canada and the other telecommunications subsidiaries of BCE, from Northern Telecom and its subsidiaries, is reflected in BCE's consolidated balance sheets at the cost to the purchasing companies, and is included in telecommunications equipment manufacturing revenues in the consolidated income statement. To the extent that any income related to these revenues, and those from associated companies, has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed with respect to activities of regulated industries. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

Telecommunications equipment manufacturing revenues comprise:

	(millions of dollars)		
	1989	1988	1987
a) revenues from			
Bell Canada	$1,495	$1,416	$1,391
Other telecommunications subsidiary and associated companies of BCE	238	181	146
b) revenues from others	5,428	5,001	4,934
Total	**$7,161**	**$6,598**	**$6,471**

Depreciation

Depreciation is generally computed using the straight-line method, with rates based on the estimated useful lives of the assets.

Research and development

All research and development costs incurred, which amounted to $1,008 million (1988 — $998 million, 1987 — $925 million), are charged to income.

1. ACCOUNTING POLICIES (continued)

Financial services

— Asset valuation

Debt securities and certain preferred shares are valued at amortized cost plus accrued interest; other securities are valued at cost. Provision for permanent impairment in the value of securities is made where appropriate. Corporate and commercial loans are shown net of any provisions for losses. Mortgages are valued at amortized cost plus accrued interest less provisions for losses.

— Assets under administration

Assets held under administration and assets held for the Guaranteed Trust Accounts of each of Montreal Trust Company and Montreal Trust Company of Canada (wholly owned subsidiaries of Montreal Trustco Inc.) are kept separate from each company's own assets and are so earmarked on the books of each company as to show the account to which they belong. Assets under administration are not reflected on the consolidated balance sheet.

Translation of foreign currencies

Foreign operations are classified as integrated or self-sustaining.

— Integrated foreign operations and transactions denominated in foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long-term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates; revenues and expenses are translated at average rates prevailing during the year, except for cost of inventory used, depreciation and amortization, which are translated at exchange rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year, except for unrealized foreign currency gains and losses on long-term monetary assets and liabilities, which are reported as a deferred charge and amortized over the remaining lives of the related items on a straight-line basis.

— Self-sustaining foreign operations

Assets and liabilities denominated in a foreign currency are translated in Canadian dollars, at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in a separate component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the year.

Leases

Leases are classified as capital or operating leases. When the corporation is the lessor, rental revenue from operating leases is recognized as service is provided to customers. For leases which qualify as sales-type leases, the sales revenue is recorded at the inception of the lease. When the corporation is the lessee, assets recorded under capital leases are amortized on a straight-line method, using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under the capital leases are reduced by rental payments net of imputed interest.

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) or net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction

Regulatory authorities require telecommunications companies to provide for a return on capital invested in new plant while under construction, by including an allowance for funds used during construction as an item of income during the construction period, and also as an addition to the cost of plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Consulting services

Consulting services under contract to clients, principally foreign telecommunications organizations, are included in other operations. The percentage-of-completion accounting method is used in the determination of income from such operations.

1. ACCOUNTING POLICIES (continued)

Income taxes

BCE and its subsidiaries use the tax allocation basis of accounting for income taxes. The corporation provides for income taxes based on accounting income for tax purposes included in the financial statements, regardless of when such income is subject to taxes under tax laws. The difference between taxes payable and taxes accrued is accounted for under Deferred credits — Income taxes on consolidated balance sheets.

In July 1989, the Canadian Radio-television and Telecommunications Commission (CRTC) directed federally regulated carriers (which include Bell Canada and Northwestel Inc.) that their deferred credits — income taxes be adjusted to reflect the reduced combined statutory corporate income tax rate in effect on January 1, 1989 and that the resulting adjustment of $293 million ($290 million applicable to Bell Canada) be amortized as a reduction to income tax expense over a five-year period commencing in October 1989. The unamortized tax adjustment at December 31, 1989 remains in deferred credits — income taxes. Adjustments to the deferred credits — income taxes, resulting from subsequent minor changes to income tax rates, will be taken into income in the year in which the changes occur. A longer amortization period will be considered by the CRTC if any subsequent adjustment to the deferred credits — income taxes has a significant impact on the rates of return on equity of these companies.

Investment tax credits reduce the provision for income taxes in the same periods in which the related expenditures are charged to earnings.

2. DISCONTINUED REAL ESTATE OPERATIONS

Effective as of December 31, 1989, BCE decided it would no longer carry on commercial real estate operations. In light of the significant operating losses incurred by BCED and an extensive write-down of the value of BCED real estate properties, BCED announced that a financial restructuring will be required, and BCE has written off its common equity investment in BCED. Therefore, BCED is reflected as a discontinued operation in BCE's financial statements.

BCE's consolidated income (loss) from discontinued real estate operations represents its share of net results of BCED applicable to its common shares. However, the loss for 1989 ($440 million) is limited to the amount required principally to write off the cost to BCE of BCED common shares and warrants.

No further losses relating to the common shareholders of BCED will be reflected in the financial results of BCE as BCE's future financial support to BCED is limited to the arrangement set forth in the agreement with Carena Developments Limited (Carena) as described below.

Details relating to BCED follow:

	(millions of dollars)		
Results:	1989	1988	1987
Revenues	$ 394	$ 859	$ 454
Expenses	(494)	(859)	(438)
Write-down of properties	(610)	—	—
Net income (loss)	$(710)	$ —	$ 16
Net income (loss) applicable to common shareholders	$(719)	$ (10)	$ 9

	(millions of dollars)	
Financial position:	December 31, 1989	December 31, 1988
Total assets	$2,306	$2,694
Total liabilities	$2,101	$1,802
Preferred shares of subsidiaries	$ 277	$ 293
Preferred shareholders' equity	$ 107	$ 107
Common shareholders' equity (deficiency)	$ (179)	$ 492

As a consequence of the 1989 financial results of BCED, a financial restructuring of BCED will be required. In this regard, BCE has entered into an agreement with Carena to facilitate the implementation of this restructuring. Pursuant to this agreement, BCE has agreed to advance up to a limit of $250 million ($97 million advanced as of December 31, 1989) which it expects to recover. BCE is not required to provide any further financial support to BCED. Carena will provide the ongoing management for BCED.

3. RESTATEMENT OF BCE'S ORIGINALLY REPORTED NET INCOME AND EARNINGS PER COMMON SHARE

(millions of dollars, except per share amounts)

	Years ended December 31				
	1988	1987	1986	1985	1984
Net income, as originally reported	$887	$1,087	$1,024	$1,051	$940
Adjustments					
Refund to subscribers of Bell Canada (note 4)	(13)	(9)	(48)	(31)	—
BCE's share of adoption of the successful efforts method of accounting for oil and gas (note 7a)	(28)	(2)	3	(11)	(5)
Net income, as restated	$846	$1,076	$ 979	$1,009	$935
Earnings per common share					
As originally reported	$3.09	$3.91	$3.83	$4.23	$4.03
As restated	$2.95	$3.87	$3.65	$4.05	$4.01

	Quarters — 1988			
	First	Second	Third	Fourth
Net income, as originally reported	$253	$286	$225	$123
Adjustments				
Refund to subscribers of Bell Canada (note 4)	(3)	(3)	(3)	(4)
BCE's share of adoption of the successful efforts method of accounting for oil and gas (note 7a)	(8)	(6)	(7)	(7)
Net income, as restated	$242	$277	$215	$112
Earnings per common share				
As originally reported	$0.89	$1.00	$0.78	$0.42
As restated	$0.86	$0.96	$0.74	$0.39

4. REFUND TO SUBSCRIBERS OF BELL CANADA

On October 14, 1986, the CRTC directed Bell Canada to provide most of its subscribers with a one-time credit totalling $206 million. This decision was appealed by Bell Canada and in June 1989, the Supreme Court of Canada decided that the CRTC had jurisdiction to order Bell Canada to provide this credit to its subscribers. In 1989, Bell Canada provided the one-time credit, plus interest, to eligible subscribers.

The effect of the Supreme Court decision has been accounted for in the second quarter of 1989 as a prior period adjustment with respect to the first quarter of 1989 and to the years 1988 to 1985. After taking into account tax and other effects, net income for such periods is reduced by a total of $105 million, of which $4 million relates to the first quarter of 1989, $13 million to 1988, $9 million to 1987, $48 million to 1986 and $31 million to 1985. Prior period data have been restated to reflect this adjustment.

5. ACQUISITION OF MONTREAL TRUSTCO INC.

On December 31, 1989, BCE owned 100% of the common shares of Montreal Trustco Inc., which was acquired in the second quarter of 1989.

The book value of net assets of Montreal Trustco Inc. at the time of acquisition was:

	(millions of dollars)	
Assets		
Short-term securities	$1,249	
Loans receivable		
Corporate and commercial loans	2,064	
Mortgages	5,624	
Debt, equity and other investments		
Bonds and debentures	517	
Preferred and common stocks	622	
Other investments	43	
Other assets	244	
Total assets		$10,363
Less:		
Liabilities and preferred shares		
Demand deposits	961	
Investment certificates and borrowings	8,799	
Other liabilities	108	
Preferred shares	100	
Total liabilities and preferred shares		9,968
Net book value		395
Consideration		
Cash	541	
BCE common shares issued at $37.75 per share	336	
		877
Excess of consideration over book value (goodwill)		$ 482

This acquisition is accounted for as a purchase transaction and the goodwill is being amortized over a period of 40 years. BCE's consolidated income statement for 1989 includes the results of Montreal Trustco Inc. from the date of acquisition. Taking into account the interest on cash consideration and the increase in the average number of shares that would be outstanding, BCE's consolidated net income and earnings per share for 1989 would not have been materially different if the acquisition had been made on January 1, 1989 instead of April 24, 1989.

6. RESTRUCTURING COSTS OF NORTHERN TELECOM LIMITED

During the fourth quarter of 1988 Northern Telecom announced plans to phase out certain manufacturing plants and to restructure certain other businesses in order to enhance its ability to compete more effectively in global markets. As a result, a provision of $242 million was established in 1988 by Northern Telecom to cover the costs of this restructuring program.

7. INVESTMENTS IN ASSOCIATED COMPANIES

BCE uses the equity method of accounting for investments in companies where ownership by BCE, or a subsidiary, ranges from 20% to 50%. Under this accounting method, BCE's proportional share of income of such companies, from the dates of their acquisition, net of amortization of excess purchase price over net assets acquired, is taken into income and added to the cost of investments. Income received from these companies reduces the carrying amounts of the investments.

The following is a summary of the investments in associated companies for the last three years:

	(millions of dollars)						
	TCPL and Encor (a)	STC PLC (b)	MT&T and Bruncor Inc. (c)	Memotec Data Inc. (d)	Quebecor inc. (e)	Other companies	Total
1987							
Balance — January 1, 1987	$ 983	—	$161	—	—	$ 98	$1,242
Cost of investments	$ 69	$1,089	$ 8	$199	—	$ 13	$1,378
Equity income	39	27	21	11	—	10	108
Income received	(70)	—	(14)	(1)	—	(2)	(87)
Currency translation	(23)	131	—	—	—	—	108
Balance — December 31, 1987	$ 998	$1,247	$176	$209	—	$119	$2,749
1988							
Cost of investments	$ 134	$ 40	$ 9	$ 20	$80	$ 13	$ 296
Equity income (loss)	(65)	63	23	6	2	9	38
Income received	(50)	(26)	(15)	(1)	(1)	(1)	(94)
Currency translation	(17)	(163)	—	(2)	—	—	(182)
Sale of investments	—	—	—	—	—	(57)	(57)
Balance — December 31, 1988	$1,000	$1,161	$193	$232	$81	$ 83	$2,750
1989							
Cost of investments	$ 237	$ —	$ 10	$ 4	$—	$ 12	$ 263
Equity income	62	78	21	3	3	6	173
Income received	(51)	(29)	(16)	(5)	(1)	(2)	(104)
Currency translation and other adjustments	(12)	(152)	—	—	(1)	(13)	(178)
Balance — December 31, 1989	$1,236	$1,058	$208	$234	$82	$ 86	$2,904

(a) TCPL and Encor

TCPL

At December 31, 1989, BCE owned 74.6 million common shares of TransCanada PipeLines Limited (TCPL), which represented 48.9% (1988 — 49.1%, 1987 — 49.3%) of the outstanding shares at that date. BCE's equity income is based on net income applicable to common shares, less BCE's amortization of goodwill amortized over 20 years. It also reflects BCE's share of the impact of adoption of the successful efforts method of accounting for oil and gas described below.

As a result of a restructuring, which became effective on May 2, 1989, TCPL distributed to its common shareholders one common share of a recapitalized Encor Inc. (Encor) for each common share of TCPL they owned. As a result of the distribution, BCE now owns directly 48.9% of the outstanding Encor common shares.

TCPL continues to own its pipeline and other businesses, while Encor owns what was previously TCPL's remaining oil and gas exploration, development and production business. In 1988 TCPL sold its oil and gas assets in the United States.

7. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

The results and financial position of TCPL are set out in the table below. These figures include oil and gas operations to May 2, 1989 which are reported by TCPL as discontinued operations.

	(millions of dollars)		
Results:	1989	1988	1987
Revenues	$3,083	$3,269	$3,161
Income from continuing operations	$ 210	$ 72	$ 171
Loss from discontinued oil and gas operations	$ (13)	$ (81)	$ (11)
Net income (loss)	$ 197	$ (9)	$ 160
Dividends on preferred shares	$ 32	$ 37	$ 39
Net income (loss) applicable to common shares	$ 165	$ (46)	$ 121

Income from continuing operations in 1988 is after deduction of non-recurring items aggregating $72 million.

	(millions of dollars)	
Financial position:	December 31, 1989	December 31, 1988
Total assets	$4,623	$5,023
Total liabilities	$3,110	$2,813
Preferred shareholders' equity	$ 344	$ 444
Common shareholders' equity	$1,169	$1,766

The decrease in common equity in 1989 compared to 1988 reflects the distribution of Encor's common shares to TCPL shareholders.

Encor

At December 31, 1989, BCE owned 48.9% (74,253,930 common shares) of Encor. In addition, concurrently with the restructuring of TCPL, Encor issued to BCE preferred shares which are convertible into 74.62 million common shares of Encor (which represent, on a fully diluted basis, 33% of the outstanding common shares). The preferred shares generally are not convertible prior to May 1, 1992. TCPL holds an option to acquire 24.22 million common shares of Encor from BCE, at $3.50 per share, at any time prior to May 1, 1994.

The holders of the preferred shares are not entitled to any dividend from the date of issue until April 30, 1994. After that date, the shares will be redeemable at the option of Encor for a total consideration of $299 million. The difference between the original issue price ($227 million) and the redemption price ($299 million) is being amortized by Encor over the period from May 2, 1989 to April 30, 1994, through annual charges to its retained earnings. For the period May 2, 1989 to December 31, 1989, the charge was $9 million.

Prior to Encor acquiring TCPL's oil and gas operations, the full cost method of accounting for oil and gas exploration and development activities had been used; on May 2, 1989 Encor adopted the successful efforts method of accounting. This has the effect of lowering (a) the carrying value of Encor's property, plant and equipment by $435 million, (b) related deferred income taxes by $237 million, and (c) equity by $198 million, as compared with carrying values using the full cost method of accounting. The net impact of these reductions has been allocated to the following periods and included in equity income of the respective periods:

	(millions of dollars)	
	Total	BCE's share
Pre-1984	$123	$60
1984	9	5
1985	22	11
1986	(5)	(3)
1987	4	2
1988	58	28
January 1 to May 2, 1989	(13)	(6)
	$198	$97

For the period May 2, 1989 to December 31, 1989, Encor reported revenues of $210 million, net loss of $30 million and loss applicable to common shares of $39 million after amortization of the increase in the preferred shares as described above. Encor's total assets were $1,476 million, total liabilities $807 million, preferred shareholders' equity $235 million, and common shareholders' equity $434 million.

7. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

(b) STC

At December 31, 1989, Northern Telecom, a 53.1% owned subsidiary, owned 27.2% (1988 — 27.5%) of the ordinary shares of STC PLC (STC). The investment in STC, a public company in the United Kingdom, was made in October 1987. Northern Telecom's equity income in STC is after deducting amortization of goodwill over 40 years.

The results and financial position of STC are:

	(millions of dollars)		
Results:	1989	1988	1987
Revenues	$5,095	$5,207	$4,502
Gross profit	$2,242	$2,052	$1,827
Income before extraordinary items	$ 344	$ 320	$ 270
Net income applicable to ordinary shares	$ 344	$ 329	$ 295

	(millions of dollars)	
Financial position:	December 31, 1989	December 31, 1988
Total assets	$3,356	$3,494
Total liabilities	$2,137	$1,969
Ordinary shareholders' equity	$1,219	$1,525

(c) MT&T and Bruncor

At December 31, 1989, BCE owned 31.2% of the common shares of Bruncor Inc. and 8,761,160 common shares (33.7%) of Maritime Telegraph and Telephone Company, Limited (MT&T). A Nova Scotia statute provides that no more than 1,000 shares of MT&T may be voted by any one shareholder.

(d) Memotec

At December 31, 1989, the investment in Memotec Data Inc., the parent corporation of Teleglobe Canada Inc., represented an interest of approximately 30.8% (1988 — 31.6%) on a fully diluted basis. Equity income is after amortization of goodwill, amortized over 20 years.

(e) Quebecor

At December 31, 1989, BCE owned 5,000,000 common shares, Class B, of Quebecor inc., which represented an equity interest of 21.2%. These shares were acquired in October 1988 as part of the consideration received for the sale by BCE of most of its printing businesses to Quebecor. Equity income is after amortization of goodwill, amortized over 20 years.

8. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate follows:

	1989	1988	1987
Statutory income tax rate in Canada	41.1 %	44.6 %	48.7 %
(i) Allowance for funds used during construction, net of applicable depreciation adjustment	(0.3)	(0.5)	(0.2)
(ii) Reduction of Canadian federal taxes applicable to manufacturing profits	(0.3)	(0.8)	(0.7)
(iii) Equity in net income of associated companies	(3.2)	(1.0)	(2.4)
(iv) Tax incentives on research and development expenditures	(3.9)	(5.7)	(3.4)
(v) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(1.2)	(1.3)	(1.3)
(vi) Other	0.6	3.1	(1.7)
Effective income tax rate	32.8 %	**38.4 %**	**39.0 %**

Details of income taxes:

	(millions of dollars)		
	1989	1988	1987
Income before income taxes and minority interest			
Canadian	$1,810	$1,513	$1,631
Foreign	425	137	564
Total income before income taxes and minority interest	**$2,235**	**$1,650**	**$2,195**
Income taxes			
Canadian	$ 604	$ 615	$ 678
Foreign	129	19	177
Total income taxes	$ 733	**$ 634**	**$ 855**
Income taxes			
Current	$ 645	$ 446	$ 718
Deferred	88	188	137
Total income taxes	$ 733	**$ 634**	**$ 855**

Deferred income taxes result from deductions for tax purposes, principally in respect of plant, in excess of amounts currently charged to operations.

Deferred credits — Income taxes on the consolidated balance sheet as at December 31, 1989 includes the unamortized deferred tax adjustment in the amount of $278 million (see note 1).

9. OTHER INCOME — Miscellaneous — net

	(millions of dollars)		
	1989	1988	1987
Interest on loans to Kinburn Corporation and Quebecor	$ 43	$ 26	$—
Gains recorded on disposition of, or reduction of ownership interest in, subsidiaries	110	127	10
Other interest income	36	31	78
Other	(33)	65	11
	156	249	99
Less: Provisions related to international operations, printing and publishing	—	97	—
	$156	**$152**	**$99**

10. FINANCE SUBSIDIARIES

The following is a summary of the combined financial data of the finance subsidiaries of Northern Telecom:

	(millions of dollars)		
	1989	1988	1987
Interest income from			
Northern Telecom's subsidiaries	$ 46	$ 45	$ 42
Other*	104	91	81
Rental and other income	1	1	1
Interest charges*	(55)	(43)	(26)
Administrative expenses	(29)	(22)	(27)
Earnings from operations	67	72	71
Currency exchange losses	(1)	(4)	(1)
Provision for income taxes	(1)	(2)	(6)
Net earnings	**$ 65**	**$ 66**	**$ 64**

* Included in revenues and cost of revenues, respectively, of Telecommunications equipment manufacturing.

	(millions of dollars)	
	December 31, 1989	December 31, 1988
Total assets	$1,425	$1,268
Total liabilities	$ 760	$ 637
Shareholders' equity	$ 665	$ 631

11. OTHER INVESTMENTS

Other investments included:

	(millions of dollars)	
	December 31, 1989	December 31, 1988
Notes of Kinburn Corporation maturing from March 29, 1991 to April 7, 1996	$376	$319
Long-term portion of notes of Quebecor receivable in annual instalments to October 1998	$ 62	$ 73
Common shares of SHL Systemhouse Inc. (12.4% of outstanding common shares as at December 31, 1989)	$ 50	—
Investments in BCED comprising convertible debentures and loans; and, preferred shares of a subsidiary of BCED	$225	$145

12. EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of shares outstanding and are calculated after deducting dividends on preferred shares. For the computation of the earnings per share, assuming full dilution, dividends on convertible preferred shares have been added back to income.

Earnings per common share for 1988 reflect the Northern Telecom provision of $242 million described in note 6, other provisions of $97 million described in note 9 and TCPL non-recurring items written off aggregating $72 million. BCE's share of these provisions, after deducting the related tax and minority interest, reduced consolidated net income by $190 million. Earnings per common share were reduced from $3.62 to $2.95.

13. COMMITMENTS AS LESSEE

At December 31, 1989, the future minimum lease payments under capital leases and operating leases with initial non-cancellable lease terms in excess of one year were:

	(millions of dollars)	
	Capital leases	Operating leases
1990	$ 20	$234
1991	20	175
1992	20	123
1993	19	101
1994	22	68
Thereafter	81	262
Total future minimum lease payments	182	$963
Less: Estimated executory costs	51	
Net minimum lease payments	131	
Less: Imputed interest	57	
Present value of net minimum lease payments	$ 74	

Rental expense applicable to all operating leases for the year 1989 was $303 million (1988 — $270 million, 1987 — $263 million).

14. INVENTORIES

	(millions of dollars) December 31, 1989	December 31, 1988
Raw materials	$ 315	$ 308
Work-in-process	245	253
Finished goods	540	510
	$1,100	**$1,071**

15. FINANCIAL SERVICES — Loans receivable

	(dollars in millions) December 31, 1989	Amount	Yield
Corporate and commercial loans			
At variable rates	$1,662		13.81%
At fixed rates (principally due within five years)	681		12.46%
	2,343		
Allowance for loan losses	(24)		
		$2,319	
Mortgages			
At variable rates	159		
At fixed rates (all due within five years)	5,898		
	6,057		
Allowance for loan losses	(27)		
		6,030	
Breakdown of mortgages is as follows:			
Residential	$3,895		11.48%
Income property	2,162		11.44%
	$6,057		
Total loans receivable		**$8,349**	

Allowance for loan losses	
Balance at date of acquisition of Montreal Trustco Inc. by BCE	$53
Provision for loan losses during the period	4
Realized loan losses	(6)
Balance at December 31, 1989	$51

16. FINANCIAL SERVICES — Debt, equity and other investments

	(millions of dollars) December 31, 1989 Cost	Market
Bonds and debentures		
Corporate and government		
Fixed interest rates	$ 568	$566
Variable interest rates	76	76
	644	$642
Stocks		
Preferred stocks		
Fixed dividend rates	362	$352
Variable dividend rates	226	222
Common stocks	171	197
	759	$771
Other investments	54	
Total debt, equity and other investments	**$1,457**	

17. FINANCIAL SERVICES — Demand deposits, investment certificates and borrowings

	(dollars in millions) December 31, 1989	Nominal rate
Demand deposits	$ 1,041	9.12%
Investment certificates and borrowings	9,359	10.86%
	$10,400	

At December 31, 1989, the investment certificates and borrowings due in the years 1990 to 1994 were $4,422 million, $1,580 million, $1,088 million, $1,165 million and $874 million, respectively; and in 1995 and thereafter, $230 million.

Where appropriate, the principal due at maturity and all future interest payments on borrowings denominated in currencies other than Canadian dollars have been hedged through to maturity in Canadian dollars through the use of forward contracts or cross currency swap agreements. In addition, Montreal Trustco Inc. from time to time enters into interest rate swap agreements in which fixed rate interest receivable or payable are exchanged with floating rate amounts.

18. PROPERTY, PLANT AND EQUIPMENT

	(millions of dollars)			
	December 31, 1989		December 31, 1988	
	Cost	Net of accumulated depreciation	Cost	Net of accumulated depreciation
Telecommunications services				
Buildings, plant and equipment	$22,304	$14,570	$20,251	$13,167
Land	109	109	107	107
Plant under construction	558	558	618	618
Material and supplies	101	101	140	140
	23,072	**15,338**	**21,116**	**14,032**
Telecommunications equipment manufacturing				
Buildings, plant and equipment	3,487	1,681	3,321	1,727
Land	35	35	37	37
	3,522	**1,716**	**3,358**	**1,764**
Other				
Buildings, plant and equipment	344	229	199	116
Land	8	8	8	8
	352	**237**	**207**	**124**
	$26,946	**$17,291**	**$24,681**	**$15,920**
Capitalized leases included in the above amounts	$ 94	$ 53	$ 111	$ 71

19. DEBT DUE WITHIN ONE YEAR

	(millions of dollars)	
	December 31, 1989	December 31, 1988
Long-term debt — current portion	$ 466	$ 301
Notes payable	1,687	1,742
Bank advances	189	122
	$2,342	**$2,165**

20. LONG-TERM DEBT

		(millions of dollars) Total outstanding December 31 1989	1988
BCE Inc.			
11⅝% Notes due 1990		$ 50	$ 50
10¼% Notes due 1990 (a)		100	100
10% Notes due 1992		300	300
9⅝% Notes due 1993		300	300
Total — BCE		*750*	*750*
Bell Canada			
Interest rates	Maturities		
First mortgage bonds (b)			
4.8% to 7⅞%	1989 to 2003	465	535
8% to 9⅞%	1989 to 2004	684	700
10% to 10½%	1994 to 1996	71	71
Debentures and notes (c)			
5⅛%	1993	75	81
8¾% to 9⅞%	1996 to 2011	1,313	1,327
10% to 12.65%	1991 to 2015	1,750	1,250
13⅜% to 17.1%	1994 to 2010	469	475
Other		54	60
Total — Bell Canada		*4,881*	*4,499*
Other subsidiaries (d)		***1,840***	***1,262***
Sub-total — BCE consolidated		***7,471***	***6,511***
Less: Due within one year		466	301
Total — BCE consolidated		**$7,005**	**$6,210**

(a) Interest payments under BCE's 10¼% Notes due 1990 have been converted to a floating interest rate by way of an interest rate conversion agreement.

(b) The first mortgage bonds of Bell Canada, which include US $418 million maturing from 1994 to 2004, are secured by a first mortgage and a floating charge on Bell Canada.

(c) Debentures and notes of Bell Canada include US $600 million maturing from 2006 to 2010; 100 million Swiss francs maturing in 1993; and 195 million New Zealand dollar notes maturing in 1994 which are hedged as to principal amount and the related interest payments.

(d) Excluding consolidated debt of Montreal Trustco Inc. which is reported under Financial services — Investment certificates and borrowings.

At December 31, 1989, the estimated amounts of long-term debt payable by the corporation and its subsidiaries in the years 1990 to 1994 were $466, $247, $665, $784 and $594 million, respectively.

21. PREFERRED SHARES

Authorized

The articles of incorporation of BCE provide for an unlimited number of first preferred shares and second preferred shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

	(dollars in millions)			
	December 31, 1989		December 31, 1988	
Outstanding	Number of shares	Stated capital	Number of shares	Stated capital
First Preferred Shares				
$1.96 shares, series G	69,391	$ 2	149,022	$ 4
$2.05 shares, series H	315,830	6	467,952	9
Series J shares	600	300	—	—
$1.95 shares, series M	8,000,000	200	—	—
Series N shares	700	350	—	—
		$858		**$13**

$1.96 shares

The $1.96 preferred shareholders are entitled to cumulative annual dividends of $1.96 payable quarterly and have one vote per share. These shares, which are redeemable, at BCE's option, at $25 per share, are convertible into 1.2 common shares on or before May 1, 1990. At December 31, 1989, 6,930,609 shares had been converted (including 79,631 during 1989, 55,409 during 1988 and 28,895 during 1987). Under the original conditions attaching to this issue, BCE shall make all reasonable efforts to purchase quarterly for cancellation, in the open market, 87,500 shares at a price not exceeding $25 per share plus costs of purchase.

$2.05 shares

The $2.05 preferred shareholders are entitled to cumulative annual dividends of $2.05 payable quarterly and have one vote per share. These shares, which are redeemable, at BCE's option, at $20 per share, are convertible into one common share on or before April 15, 1992. At December 31, 1989, 9,684,170 shares had been converted (including 152,122 during 1989, 170,795 during 1988 and 151,841 during 1987). BCE shall make all reasonable efforts to purchase quarterly for cancellation, in the open market, 125,000 shares at a price not exceeding $20 per share plus costs of purchase.

Series J shares

The Cumulative Redeemable First Preferred Shares, Series J were issued in March 1989, by way of private placement at $500,000 per share to yield 7.64%. The Series J preferred shareholders are entitled to cumulative annual dividends of $38,200 per share, payable quarterly, to September 30, 1994. After that date, the quarterly dividends will be determined by one of: direct negotiation between BCE and holders of the shares; bids solicited from investment dealers; or an auction procedure. These shares, which are non-voting except in certain circumstances where Series J preferred shareholders are entitled to 5,000 votes per share, are not redeemable prior to September 30, 1994. From that date, they will be redeemable, at BCE's option, at a price of $500,000 per share.

$1.95 shares

The $1.95 Cumulative Redeemable Retractable First Preferred Shares, Series M were issued in April 1989, at $25 per share to yield 7.80%. The $1.95 preferred shareholders are entitled to cumulative annual dividends of $1.95 per share, payable quarterly. These shares, which are non-voting except in certain circumstances where $1.95 preferred shareholders are entitled to one vote per share, are redeemable at the holder's option on April 30, in each of the years 1995 and 1996, at $25 per share, and on or after April 30, 1995, at BCE's option, at $25 per share. BCE may elect, on or before March 16, 1995, to create a further series of first preferred shares into which the $1.95 shares will be convertible on a share for share basis, at the option of the holder, on April 30, 1995.

Series N shares

The Cumulative Redeemable First Preferred Shares, Series N were issued in October 1989, by way of private placement at $500,000 per share to yield 7.55%. The Series N preferred shareholders are entitled to cumulative annual dividends of $37,750 per share, payable quarterly, to November 30, 1994. After that date, the quarterly dividends will be determined by one of: direct negotiation between BCE and holders of the shares; bids solicited from investment dealers; or an auction procedure. These shares, which are non-voting except in certain circumstances where Series N preferred shareholders are entitled to 5,000 votes per share, are not redeemable prior to November 30, 1994. From that date, they will be redeemable, at BCE's option, at a price of $500,000 per share.

22. COMMON SHARES

Authorized: an unlimited number of common shares

	(dollars in millions)			
	December 31, 1989		December 31, 1988	
	Number of shares	Stated capital	Number of shares	Stated capital
Outstanding	302,052,182	$5,276	**289,545,724**	**$4,802**

Number of common shares issued during the last three years:

	1989	1988	1987
For cash			
Shareholder Dividend Reinvestment and Stock Purchase Plan	3,275,305	4,145,581	7,598,316
Exercise of options	16,187	—	4,192
Conversion of preferred shares	247,670	11,455,000	697,711
In exchange for shares of a subsidiary	—	—	213,816
Optional Stock Dividend Program	64,807	76,668	78,744
On acquisition of Montreal Trustco Inc.	8,902,489	—	—
	12,506,458	**15,677,249**	**8,592,779**

Stock options

Under the Long-Term Incentive (Stock Option) Program (1985) (the Plan), options may be granted to officers and other key employees of BCE and of its subsidiaries to purchase common shares of BCE at a subscription price of 100% of market value. The options are exercisable during a period not to exceed ten years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first twelve months after the date of the grant. Simultaneously with the grant of an option, the employee may also be granted the right to a special compensation payment (SCP) (payable, in accordance with the terms of the Plan, in cash or in shares of BCE). The amount of any SCP is equal to the increase in market value of the number of BCE shares covered by the SCP (which number may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related.

At December 31, 1989, a total of 4,979,621 common shares had been authorized for issuance under the Plan. Shares covered by options granted with respect to any year may not exceed one-half of one per cent of the outstanding common shares of the corporation at the end of the immediately preceding year.

As of February 13, 1990, options covering 742,560 shares were outstanding: 315,175 granted with respect to the years 1984 to 1986, at an exercise price varying from $37.6875 to $39.75 per share; 149,935 granted with respect to the year 1987, at an exercise price of $37.625 per share; 141,428 granted with respect to the year 1988, at an exercise price of $36.8125 per share; and 136,022 granted with respect to the year 1989, at an exercise price of $43.25 per share. All of the options granted with respect to 1984 and 1985, three-quarters of those with respect to 1986, one-half of those with respect to 1987 and one-quarter of those with respect to 1988 are now exercisable. In addition, SCPs have been granted to the same key employees covering the same number of shares as the options to which the SCPs are related.

Additional common shares reserved at December 31, 1989 — 12,545,270:

10,200,173 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

399,099 shares for issuance upon conversion of all convertible preferred shares.

1,945,998 shares for issuance under the Optional Stock Dividend Program.

23. FOREIGN EXCHANGE ADJUSTMENT

Following is an analysis of the foreign exchange adjustment included in the common shareholders' equity resulting from self-sustaining foreign operations:

	(millions of dollars)		
	1989	1988	1987
Balance at beginning of year	**$ (99)**	**$ 92**	**$121**
Translation adjustments for the year	(111)	(191)	(29)
Balance at end of year	**$(210)**	**$ (99)**	**$ 92**

24. UNUSED BANK LINES OF CREDIT

At December 31, 1989, unused bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $3,100 million.

25. CHANGES IN WORKING CAPITAL

	(millions of dollars)		
	1989	1988	1987
(Increase) decrease in current assets:			
Accounts receivable	$(463)	$(256)	$ 35
Inventories	(29)	(31)	6
Other current assets	(123)	(161)	(22)
Income and other taxes receivable	103	(31)	(72)
Increase (decrease) in current liabilities:			
Accounts payable	83	270	252
Advance billing and payments	(269)	69	21
Dividends payable	6	27	5
Taxes accrued	166	(79)	(166)
Interest accrued	79	47	30
(Increase) decrease in working capital	**$(447)**	**$(145)**	**$ 89**

26. QUARTERLY FINANCIAL DATA

Summarized consolidated quarterly financial data (in millions of dollars, except per share amounts):

	Quarters — 1989			
	First	Second	Third	Fourth
Total revenues	**$3,668**	**$4,189**	**$4,186**	**$4,638**
Telecommunications services				
Operating revenues	1,920	2,000	2,040	2,051
Net revenues	500	491	570	474
Telecommunications equipment manufacturing				
Revenues	1,626	1,797	1,664	2,074
Gross profit	609	700	663	849
Net revenues	70	140	139	274
Financial services				
Revenues	—	267	355	363
Net revenues	—	21	22	15
Other operations				
Operating revenues	122	125	127	150
Net revenues	6	4	3	5
Income from continuing operations	$251	$314	$331	$ 305
Loss from discontinued real estate operations	(10)	(13)	(20)	(397)
Net income (loss)	$241	$301	$311	$ (92)
Net income (loss) applicable to common shares	$239	$291	$302	$(108)
Earnings per share				
Continuing operations	$ 0.86	$ 1.03	$ 1.06	$ 0.96
Discontinued real estate operations (loss)	(0.04)	(0.04)	(0.06)	(1.32)
Earnings per common share	$ 0.82	$ 0.99	$ 1.00	$(0.36)
Average common shares outstanding (thousands)	290,227	297,090	300,858	301,695

	Quarters — 1988			
	First	Second	Third	Fourth
Total revenues	**$3,546**	**$3,698**	**$3,404**	**$3,797**
Telecommunications services				
Operating revenues	1,795	1,772	1,697	1,828
Net revenues	491	460	416	471
Telecommunications equipment manufacturing				
Revenues	1,536	1,715	1,507	1,840
Gross profit	621	707	626	741
Net revenues	105	147	93	(95)
Other operations				
Operating revenues	215	211	200	129
Net revenues	8	16	9	7
Income from continuing operations	$243	$278	$212	$120
Income (loss) from discontinued real estate operations	(1)	(1)	3	(8)
Net income	$242	$277	$215	$112
Net income applicable to common shares	$238	$276	$215	$112
Earnings per share				
Continuing operations	$0.86	$0.96	$0.73	$ 0.41
Discontinued real estate operations (loss)	—	—	0.01	(0.02)
Earnings per common share	$0.86	$0.96	$0.74	$ 0.39
Average common shares outstanding (thousands)	278,166	286,799	287,772	288,909

27. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES GAAP

(millions of dollars, except per share amounts)

	Quarters — 1989			
	First	Second	Third	Fourth
Net income — Canadian GAAP	$241	$ 301	$311	$ (92)
Adjustments				
Foreign exchange (a)	6	(9)	18	13
Refund to subscribers of Bell Canada (b)	4	(105)	—	—
Equity in net income of associated companies (c)	19	2	1	—
Other adjustments (d)	(1)	(2)	(2)	(3)
Net income — U.S. GAAP	**$269**	**$ 187**	**$328**	**$ (82)**
Earnings per common share — U.S. GAAP	$0.92	$0.60	$1.06	$(0.32)

	Quarters — 1988			
	First	Second	Third	Fourth
Net income — Canadian GAAP	$242	$277	$215	$112
Adjustments				
Foreign exchange (a)	70	24	(13)	15
Refund to subscribers of Bell Canada (b)	3	3	3	4
Equity in net income of associated companies (c)	39	31	11	(3)
Other adjustments	—	(1)	(1)	—
Net income — U.S. GAAP	**$354**	**$334**	**$215**	**$128**
Earnings per common share — U.S. GAAP	$1.26	$1.16	$0.75	$0.44

	Years ended December 31		
	1989	1988	1987
Net income — Canadian GAAP	$ 761	$ 846	$1,076
Adjustments			
Foreign exchange (a)	28	96	82
Refund to subscribers of Bell Canada (b)	(101)	13	9
Equity in net income of associated companies (c)	22	78	(30)
Other adjustments (d)	(8)	(2)	—
Net income — U.S. GAAP	**$ 702**	**$1,031**	**$1,137**
Earnings per common share — U.S. GAAP	$2.24	$3.59	$4.10

(a) Differences arising from the methods of accounting, under Canadian GAAP, for unrealized foreign currency gains and losses on long-term debt and under United States Financial Accounting Standards Board's Foreign Currency Translation.

(b) United States Financial Accounting Standards Board's Statement No. 71 — Accounting for the Effects of Certain Types of Regulation requires inclusion in the current income statement of refunds to subscribers which occur in a period other than the period in which the related revenue was recognized. (See note 4.)

(c) The significant factor causing these differences between Canadian and U.S. GAAP is the treatment of unrealized foreign currency gains and losses.

(d) Figures for 1989 include additional amortization of goodwill related to Montreal Trustco Inc. assuming the amortization period would be 25 years rather than 40 years.

28. PENSIONS

BCE and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions, based on length of service and rates of pay, for substantially all their employees. The policy is to fund pension costs, through contributions based on various actuarial cost methods, as permitted by pension regulatory bodies. Contributions reflect actuarial assumptions regarding salary projection and future service benefits. Plan assets are represented by common and preferred shares, bonds and debentures, cash and short-term investments, real estate and secured mortgages.

The present value of the accrued plan benefits and the net assets available to discharge these benefits at December 31 are:

	(millions of dollars)	
	1989	1988
Actuarial present value of plan benefits		
Accumulated plan benefits		
Vested	$4,369	$3,741
Non-vested	906	859
	5,275	4,600
Effect of salary projection	1,802	1,649
Accrued plan benefits	**$7,077**	**$6,249**
Net assets available for plan benefits — at market value	**$8,144**	**$7,006**

The provision for pension cost and its components for the years ended December 31 are:

	(millions of dollars)		
	1989	1988	1987
Service cost component	$ 243	$ 212	$ 226
Interest on projected plan benefits	547	479	456
Return on plan assets	(1,072)	(698)	(260)
Other — net	464	147	(207)
	$ 182	**$ 140**	**$ 215**

The provision for pension cost was calculated using a value of assets adjusted to market over periods ranging from 3 to 5 years, which amounted to $7,719 million at December 31, 1989 (1988 — $6,735 million, 1987 — $6,254 million). The weighted average discount rate used in determining the accumulated and accrued plan benefits, and the weighted average assumed long-term rate of return on plan assets, was 8.2% for 1989 (1988 — 8%, 1987 — 7.7%).

The cumulative difference between amounts expensed and the funding contributions is reflected on the consolidated balance sheet and is derived as follows:

	(millions of dollars)	
	1989	1988
Excess of plan assets at market value over accrued plan benefits	$ 1,067	$ 757
Unrecognized net experience gains	(1,179)	(677)
Unrecognized net assets existing at January 1, 1987 being amortized over a weighted average of 17 years	(144)	(132)
Other unrecognized net plan benefits and amendments	196	10
Accrued liability included in the consolidated balance sheet	$ 60	$ 42

In addition to pension benefits, BCE and its subsidiary companies provide certain health care and life insurance benefits for retired employees. The costs of such benefits, excluding life insurance, are paid out of current income, as benefits are received, and in 1989 amounted to $18 million (1988 — $16 million, 1987 — $13 million). Life insurance for retired employees is largely funded during their working lives.

29. INDUSTRY SEGMENTS INFORMATION

BCE and its subsidiaries operate principally in three reportable business segments:

1) Telecommunications services, which includes the provision of voice, data, image, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services, including directory operations;

2) Telecommunications equipment manufacturing, which involves the design, development, manufacture and marketing of central office switching equipment, business communications systems and terminals, transmission equipment, cable and outside plant products, and other telecommunications products and services; and

3) Financial services, which includes the financial intermediary business of accepting deposits or other borrowings and investing in residential mortgages, commercial mortgages, corporate loans and other securities; fiduciary activities such as personal trust, corporate trust, stock transfer and pension plan administration; and real estate brokerage.

Other operations include international consulting services; printing, packaging and publishing; and other fields. In April 1988, the packaging operations were sold.

Details of revenues and supplementary data by business segment and geographic area are set out in the following tables.

29. INDUSTRY SEGMENTS INFORMATION (continued)

The following table sets forth revenues, net revenues and supplementary data for each of the corporation's business segments for the years ended December 31:

By business segment	(millions of dollars) 1989	1988	1987
Revenues			
Telecommunications services	$ 8,011	$ 7,092	$ 6,758
Telecommunications equipment manufacturing	7,161(a)	6,598(a)	6,471(a)
Intersegment revenues	57	59	51
	7,218	6,657	6,522
Financial services	985	—	—
Other operations	524	755	1,092
Intersegment revenues	29	74	107
	553	829	1,199
Elimination of intersegment revenues	(86)	(133)	(158)
Total revenues	$16,681	$14,445	$14,321
Total net revenues			
Telecommunications services	$ 2,028	$ 1,838	$ 1,761
Telecommunications equipment manufacturing	621	243	629
Financial services	58	—	—
Other operations	27	47	162
	$ 2,734	$ 2,128	$ 2,552
Identifiable assets			
Telecommunications services	$17,334	$15,981	$13,966
Telecommunications equipment manufacturing	5,861	5,428	4,765
Financial services	10,988	—	—
Other operations	583	525	1,099
Eliminations	226	(289)	(279)
	34,992	21,645	19,551
Investments	3,640	3,291	2,912
General corporate assets	629(b)	645(b)	921(b)
Discontinued real estate operations	—	407	413
Total assets as at December 31	$39,261	$25,988	$23,797
Depreciation			
Telecommunications services	$ 1,416	$ 1,203	$ 1,107
Telecommunications equipment manufacturing	377	363	352
Financial services	2	—	—
Other operations and general corporate	18	32	71
Total depreciation	$ 1,813	$ 1,598	$ 1,530
Gross capital expenditures			
Telecommunications services	$ 2,742	$ 2,407	$ 2,090
Telecommunications equipment manufacturing	436	618	554
Financial services	14	—	—
Other operations and general corporate	47	49	159
Total capital expenditures	$ 3,239	$ 3,074	$ 2,803

29. INDUSTRY SEGMENTS INFORMATION (continued)

The following table sets forth information by geographic area for the years ended December 31:

By geographic area (c)	1989	1988	1987
	(millions of dollars)		
Total revenues			
Canada			
Customers	$11,670	$ 9,717	$ 9,282
Transfers between geographic areas	714	702	683
	12,384	**10,419**	**9,965**
U.S.A.			
Customers	4,612	4,337	4,366
Transfers between geographic areas	195	154	141
	4,807	**4,491**	**4,507**
Other			
Customers	399	391	673
Transfers between geographic areas	89	59	56
	488	**450**	**729**
Elimination of transfers between geographic areas	**(998)**	**(915)**	**(880)**
Total revenues	**$16,681**	**$14,445**	**$14,321**
Total net revenues before research and development expenses			
Canada	$ 2,982	$ 2,728	$ 2,598
U.S.A.	1,085	919	1,085
Other	—	27	100
	4,067	3,674	3,783
Research and development expenses	(1,008)	(998)	(925)
General corporate expenses	(325)	(306)	(306)
Restructuring costs	—	(242)	—
Other income (expense)	(499)	(478)	(357)
Income before income taxes and minority interest	**$ 2,235**	**$ 1,650**	**$ 2,195**
Identifiable assets			
Canada	$30,766	$18,253	$16,385
U.S.A.	3,864	3,488	3,175
Other	624	617	692
Eliminations	(262)	(713)	(701)
	34,992	21,645	19,551
Investments	3,640	3,291	2,912
General corporate assets	629(b)	645(b)	921(b)
Discontinued real estate operations	—	407	413
Total assets as at December 31	**$39,261**	**$25,988**	**$23,797**

(a) Telecommunications equipment manufacturing includes revenues of $1,733 million (1988 — $1,597 million, 1987 — $1,537 million) from Bell Canada and other telecommunications subsidiary and associated companies of BCE. These revenues are not eliminated on consolidation. Telecommunications equipment manufacturing revenues of Northern Telecom from Bell Canada are at sale prices and terms as low as those offered to the most favoured customers of Northern Telecom for like materials and services under comparable conditions.

(b) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

(c) The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic area.

Management's responsibility for financial statements

The accompanying consolidated financial statements of BCE Inc. and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

The management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Touche Ross & Co., chartered accountants, and their report is presented below.

Donald R. Newman
Vice-President and Comptroller

Auditors' report

The Shareholders, BCE Inc.

We have examined the consolidated balance sheets of BCE Inc. and its subsidiaries as at December 31, 1989 and 1988 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1989 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

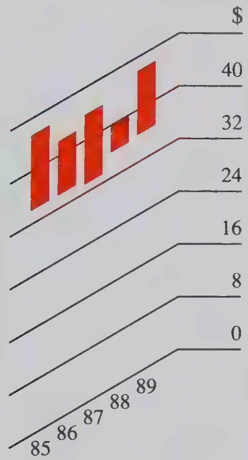
Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
February 13, 1990

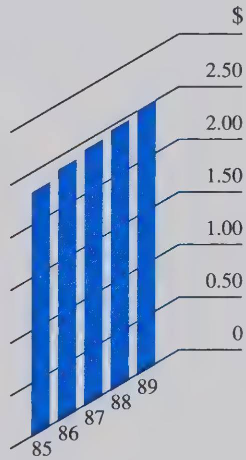
Common Share Data

	1989		1988	
	High	Low	High	Low
Montreal and Toronto				
1st quarter	$39¼	$36⅜	$39⅝	$36⅛
2nd quarter	40⅛	36⅜	39½	36¾
3rd quarter	42⅝	39½	37¾	36¼
4th quarter	45⅝	40¼	39¼	36½
NYSE consolidated tape (US $)				
1st quarter	$33⅛	$30½	$31⅝	$28¼
2nd quarter	33½	30⅝	31⅞	29⅝
3rd quarter	36⅜	33	30⅞	29½
4th quarter	39⅜	34¾	32⅝	29⅞

Market prices per common share



Dividend growth



Dividends
Quarterly dividends of $0.62 per common share were paid in 1989 ($0.61 in 1988).

On November 22, 1989, an increase in the dividend on common shares was declared. The final 1989 quarterly dividend, which was paid on January 15, 1990, was raised to $0.63. The indicated annual rate is now $2.52, an increase of $0.04 over the previous annual rate.

Number of shareholders
At December 31, 1989, there were 288,619 registered holders of common shares.

SELECTED FINANCIAL AND OTHER DATA (CONSOLIDATED)

	1989	1988*	1987*	1986*
Income statement data (millions of dollars)				
Revenues				
Local service	$ 2,885	$ 2,631	$ 2,489	$ 2,380
Long distance service	3,902	3,505	3,403	3,204
Directory advertising and miscellaneous — net	1,224	956	866	806
Total telecommunications services	8,011	7,092	6,758	6,390
Telecommunications equipment manufacturing	7,161	6,598	6,471	6,114
Financial services	985	—	—	—
Other operations	524	755	1,092	1,063
Total revenues	**16,681**	**14,445**	**14,321**	**13,567**
Income from continuing operations	1,201	853	1,070	974
Net income	761	846	1,076	979
Balance sheet data (millions of dollars)				
Total assets	$39,261	$25,988	$23,797	$21,576
Common equity	9,548	9,214	8,885	8,217
Preferred shares (redeemable)	858	13	243	257
Minority interest	2,892	2,342	2,292	2,134
Long-term debt (including current portion)	7,471	6,511	5,972	5,052
Gross capital expenditures	3,239	3,074	2,803	2,322
Common share data				
Earnings per share				
Continuing operations	$ 3.91	$ 2.97	$ 3.85	$ 3.63
Earnings per common share	$ 2.43	$ 2.95	$ 3.87	$ 3.65
Assuming full dilution	$ 2.43	$ 2.95	$ 3.81	$ 3.60
Dividends declared per common share	$ 2.49	$ 2.45	$ 2.41	$ 2.37
Equity per common share	$31.61	$31.82	$32.44	$30.97
Return on common equity	7.6%	9.2%	12.3%	12.1%
Other data				
Telephones in service (thousands)	9,718	9,647	9,525	9,543
Network access services (thousands)	8,986	8,472	8,117	7,746
Long distance messages (millions)	1,695	1,455	1,254	1,083
Number of employees (thousands)	120	115	116	109

* Restated

1985*	1984*	1983	1982	1981	1980	1979
$ 2,354	$ 2,295	$ 2,224	$ 2,136	$ 1,918	$ 1,626	$ 1,450
2,974	2,739	2,481	2,277	1,972	1,625	1,414
638	507	371	278	250	205	175
5,966	5,541	5,076	4,691	4,140	3,456	3,039
5,829	4,359	3,276	3,005	2,570	2,034	1,866
—	—	—	—	—	—	—
1,051	715	550	734	719	562	362
12,846	**10,615**	**8,902**	**8,430**	**7,429**	**6,052**	**5,267**
1,007	935	830	615	556	273	433
1,009	935	830	615	556	273	433
$19,506	$17,396	$14,772	$13,211	$12,201	$11,243	$10,124
7,200	6,252	5,307	4,257	3,859	3,471	3,345
313	378	423	522	362	454	329
1,798	1,349	800	528	447	398	470
5,041	4,609	4,282	4,567	4,449	4,168	3,553
2,217	1,961	1,604	1,765	1,714	1,598	1,351
$ 4.04	$ 4.01	$ 3.88	$ 3.07	$ 3.00	$ 1.44	$ 2.63
$ 4.05	$ 4.01	$ 3.88	$ 3.07	$ 3.00	$ 1.44	$ 2.63
$ 3.97	$ 3.90	$ 3.76	$ 2.99	$ 2.91	$ 1.44	$ 2.55
$ 2.30	$2.205	$2.105	$ 1.99	$ 1.84	$ 1.68	$ 1.55
$29.26	$26.78	$24.68	$22.68	$21.74	$20.75	$21.11
14.5%	15.8%	14.7%	13.7%	14.0%	9.5%	12.7%
9,618	9,769	9,780	9,888	10,063	9,988	9,642
7,424	7,145	6,887	6,722	6,650	6,467	6,227
978	895	833	791	793	741	687
108	108	101	98	102	97	94

L. Beaudoin D.J. Johnston P.A. Allen
J. Guillevin Wood J.V.R. Cyr

A.J. de Grandpré E.B. Fitzgerald G.J. Maier
A.H. Ross L.B. Vaillancourt

C.R. Sharpe C.W. Daniel W. Chippindale
J.E. Newall J.P. Gordon

M. Bélanger E.N. McKelvey
R.M. Barford J.S. Brant

Peter A. Allen
Toronto, Ontario
Chairman, President and
Chief Executive Officer
LAC Minerals Ltd.
(mine exploration, development
and production company,
specializing in gold and other
hardrock minerals)

Ralph M. Barford
Toronto, Ontario
President
Valleydene Corporation
Limited
(private investment company)

Laurent Beaudoin, C.C., F.C.A.
Westmount, Quebec
Chairman
and Chief Executive Officer
Bombardier Inc.
(manufacturers of recreational,
industrial, aerospace and
transportation products)

Marcel Bélanger, O.C., F.C.A.
Quebec, Quebec
President
Gagnon et Bélanger Inc.
(management consultants)

John S. Brant
London, Ontario
President
and Chief Executive Officer
Emco Limited
(manufacturer and
distributor of plumbing,
building and environmental
protection products)

Warren Chippindale, F.C.A.
Westmount, Quebec
(company director)

J.V. Raymond Cyr, O.C.
Montreal, Quebec
Chairman, President and
Chief Executive Officer
BCE Inc.

C. William Daniel, O.C.
North York, Ontario
(company director/consultant)

A. Jean de Grandpré, C.C., Q.C.
Montreal, Quebec
Founding Director
and Chairman Emeritus
BCE Inc.
Legal Counsel
Lavery, O'Brien
(law firm)

Edmund B. Fitzgerald
Nashville, Tennessee
Chairman of the Board
Northern Telecom Limited

J. Peter Gordon, O.C.
Mississauga, Ontario
(company director)

Jeannine Guillevin Wood
Montreal, Quebec
Chairman of the Board and
Chief Executive Officer
Guillevin International Inc.
(distributor of electrical products)

The Honourable
Donald J. Johnston, P.C., Q.C.
Montreal, Quebec
Legal Counsel
Heenan Blaikie
(law firm)

Gerald J. Maier
Calgary, Alberta
President
and Chief Executive Officer
TransCanada PipeLines
Limited

E. Neil McKelvey, O.C., Q.C.
Saint John, New Brunswick
Partner
McKelvey, Macaulay,
Machum
(law firm)

J. Edward Newall
Toronto, Ontario
Chairman and
Chief Executive Officer
Du Pont Canada Inc.
(manufacturers of chemical
and specialty products)

Alastair H. Ross
Calgary, Alberta
Chairman
and Chief Executive Officer
Pacific Enterprises
Oil Company (Canada)
(oil and gas exploration
company)

C. Richard Sharpe
Mississauga, Ontario
Chairman of the Board
Sears Canada Inc.
(retail department stores
and catalogue sales)

Louise B. Vaillancourt, C.M.
Outremont, Quebec
(company director)

COMMITTEES OF THE BOARD

Audit
M. Bélanger – chairman
R.M. Barford
L. Beaudoin
W. Chippindale
E.N. McKelvey
A.H. Ross
L.B. Vaillancourt

Investment
J.V.R. Cyr – chairman
M. Bélanger
J.S. Brant
C.W. Daniel
A.J. de Grandpré
J. Guillevin Wood
A.H. Ross

Management Resources and Compensation
J.P. Gordon – chairman
L. Beaudoin
C.W. Daniel
J.E. Newall
C.R. Sharpe

Pension Fund Policy
J.P. Gordon – chairman
P.A. Allen
J.V.R. Cyr
E.B. Fitzgerald
D.J. Johnston
E.N. McKelvey

BCE has established permanent committees of the board of directors to permit continuing review of the areas of auditing, management resources and compensation, pension fund policy, and investment.

The *Audit Committee* reviews the corporation's financial statements and related data prior to submission to the full board. It advises the board on the adequacy, accuracy and timeliness of financial reports; on the efficacy of internal accounting, auditing and control procedures; and ensures that BCE continues to meet high standards of disclosure, fully compliant with all external requirements and reporting standards.

The audit committee also advises the board on the selection of the shareholders' auditors, and meets, both separately and together, with the auditors and management. BCE's audit committee consists entirely of outside directors; *i.e.*, directors who are not officers of BCE or its subsidiaries. The audit committee met seven times during 1989.

The *Management Resources and Compensation Committee* recommends candidates for appointment or election to the board, ensures that qualified personnel will be available for appointment to officer and other management ranks, and assesses the performance of officers. All members of the committee are outside directors. The management resources and compensation committee met four times during 1989.

The *Pension Fund Policy Committee* advises the board on the funding of pension liabilities and the investment of pension fund assets of BCE and certain of its subsidiary and associated companies. It also reviews and reports to the board on the activities of the pension fund trustee as directed by management. The pension fund policy committee met twice during 1989.

The *Investment Committee* is vested with the full powers and authority of the board in cases when investment decisions are required urgently. Its decisions are reported to the full board within 24 hours. The investment committee met five times during 1989.

SHAREHOLDER STATISTICS

	At December 31				
	1989	1988	1987	1986	1985
Common shareholders by holdings					
1-99 shares	135,339	142,330	138,637	144,805	139,093
100-999 shares	128,958	149,608	153,438	166,161	165,984
1,000 shares and over	24,322	27,264	26,600	27,562	27,363
Total	288,619	319,202	318,675	338,528	332,440
Average number of common shares per registered holder	1,046	907	859	783	740
Total number of shareholders (including preferred)	289,465	320,470	327,226	348,441	344,541
Common shareholders by location					
Canada	282,008	312,320	311,847	331,623	325,877
Other	6,611	6,882	6,828	6,905	6,563
Total	288,619	319,202	318,675	338,528	332,440
Common shares by location					
Canada*	269,214,782	266,385,621	251,986,759	250,695,266	231,332,364
Other	32,837,400	23,160,103	21,881,716	14,580,430	14,714,250
Total	302,052,182	289,545,724	273,868,475	265,275,696	246,046,614

* Held by shareholders registered as residents of Canada

Corporate Officers

J.V. Raymond Cyr
Chairman, President
and Chief Executive Officer

C. Wesley M. Scott
Executive Vice-President
Corporate

J. Stuart Spalding
Executive Vice-President
Finance

Graham E. Bagnall
Vice-President and
Treasurer

Josef J. Fridman
Vice-President and
General Counsel

Guy Houle
Vice-President and
Corporate Secretary

Donald R. Newman
Vice-President and
Comptroller

J.S. Spalding J.J. Fridman D.R. Newman G.E. Bagnall
C.W.M. Scott G. Houle

Departmental Executive

Ivan Berggrun
Assistant Comptroller
Research, Budget and
Results

Stephen J. Brady
Assistant Treasurer
Shareholder Services

Simon Jegher
Assistant Treasurer
Financing

David H. Orr
Assistant Vice-President
Corporate Relations

Marc J. Ryan
Assistant General
Counsel

Michel E. Saint-Cyr
Assistant Vice-President
Finance (Real Estate)

Nichol A. Smith
Assistant Vice-President
Taxation

Reynold Tremblay
Assistant Comptroller
External Reporting

Leonard J. van der Heyden
President
BCE Corporate Services Inc.

SHAREHOLDER SERVICES AND INFORMATION

Dividend Reinvestment and Stock Purchase Plan (DRP)
Shareholders wishing to aquire additional common shares of BCE Inc. can take advantage of the Shareholder Dividend Reinvestment and Stock Purchase Plan. This plan provides a convenient method for eligible holders of BCE common shares to reinvest all or a portion of their common share cash dividends in new common shares of BCE.

Participating shareholders pay no brokerage commission or service charge of any kind and all administrative costs of the plan are borne by the corporation.

Payment of dividends – direct deposit
BCE Inc. shareholders resident in Canada may have their dividend cheques deposited directly to their personal account at most banks or other financial institutions. This service permits shareholders to arrange for the timely deposit of their dividend payments in a manner that is reliable, secure and convenient.

U.S. resident shareholders – choice of dollar denominated dividend payments
U.S. holders of common shares, who are resident in the United States and have not elected to have their cash dividends reinvested in DRP, normally have their dividends converted to and paid in U.S. funds, unless instructions to pay in Canadian funds are received.

Multiple mailings
In some cases, where an individual holds more than one class of securities, or when holdings are registered differently, the shareholder may receive more than one copy of publications such as interim and annual reports. In such cases, please advise our transfer agent.

CANADIAN TAXES ON FOREIGN INVESTORS

Income taxes
Dividends (including stock dividends) on BCE shares, paid or credited to non-residents of Canada, are subject to withholding tax at 25 per cent, unless reduced by treaty.

Under the United States-Canada Income Tax Convention, a withholding tax of 15 per cent applies to BCE dividends (including stock dividends) paid or credited to individuals residing in the United States, or corporations organized under the laws of the United States, which do not have a "permanent establishment" or a "fixed base" in Canada.

Gains on disposals of BCE shares by a non-resident of Canada are generally not subject to Canadian income tax, unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and succession duties
There are no estate taxes or succession duties imposed by Canada or by any province of Canada.

SHAREHOLDER INQUIRIES

For further information concerning the plans available to shareholders and how to participate, and to eliminate multiple mailings and discontinue interim reports, please write to:

Until May 4, 1990
Assistant Treasurer, Shareholder Services
BCE Inc.
P.O. Box 3500
Tour de la Bourse
Montreal, Quebec H4Z 1L3

After May 4, 1990
Montreal Trust Company
P.O. Box 1100, Station B
Montreal, Quebec H3B 3K9

Sur demande, le vice-président et secrétaire de la Société vous fera volontiers parvenir un exemplaire français du rapport annuel.

Printed by
The Case-Hoyt Corporation
Rochester, New York
a BCE company

INVESTOR INFORMATION

Transfer offices for stock

Canada:*

BCE Shareholder Services
Montreal, Toronto

The Royal Trust Company
St. John's, Nfld.,
Halifax, Charlottetown,
Saint John, N. B.,
Winnipeg, Regina,
Calgary, Edmonton, Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.
New York, N. Y.

The Royal Trust Company
London, England

Registrar for stock

Canada:*

BCE Shareholder Services
Montreal, Toronto

Montreal Trust Company
St. John's, Nfld.,
Halifax, Charlottetown,
Saint John, N. B.,
Winnipeg, Regina,
Calgary, Edmonton, Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.
New York, N. Y.

The Royal Bank of Scotland plc.
London, England

Listing of stock

Canada:

The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

Outside Canada — Common shares only:

Belgium
Brussels Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Düsseldorf Stock Exchanges

Japan
Tokyo Stock Exchange

Switzerland
Zürich, Basel, Geneva Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United Kingdom
The Stock Exchange

United States
New York Stock Exchange

*** After May 4, 1990**
Montreal Trust will become Canadian Transfer Agent and Registrar for BCE, and operation of the BCE Shareholder Services department will end at that time.

Montreal Trust offices are located in
Montreal, Toronto,
St. John's, Nfld.,
Halifax, Charlottetown,
Saint John, N. B.,
Winnipeg, Regina,
Calgary, Edmonton and Vancouver.

Form 10-K
The Annual Report on Form 10-K is available, from the date of its filing with the Securities and Exchange Commission in the United States, by writing to:

The Vice-President and
Corporate Secretary
BCE Inc.
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7